

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 000-51395

FEDERAL HOME LOAN BANK OF PITTSBURGH

(Exact name of registrant as specified in its charter)

Federally Chartered Corporation

(State or other jurisdiction of
incorporation or organization)

25-6001324

(IRS Employer Identification No.)

601 Grant Street

Pittsburgh, PA 15219

(Address of principal executive offices)

15219

(Zip Code)

(412) 288-3400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

☐ Large accelerated filer

☐ Accelerated filer

☒ Non-accelerated filer

☐ Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

There were 40,093,862 shares of common stock with a par value of \$100 per share outstanding at July 31, 2009.

FEDERAL HOME LOAN BANK OF PITTSBURGH

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PART I – FINANCIAL INFORMATION

Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Overview should be read in conjunction with the Bank’s unaudited financial statements and footnotes to financial statements in this report filed on Form 10-Q as well as the Bank’s 2008 Annual Report filed on Form 10-K.

Overview

The Federal Home Loan Bank of Pittsburgh (Bank) is one of twelve Federal Home Loan Banks (FHLBanks). The FHLBanks operate as separate entities with their own managements, employees and boards of directors. The twelve FHLBanks, along with the Office of Finance (OF – the FHLBanks’ fiscal agent) and the Federal Housing Finance Agency (Finance Agency – the FHLBanks’ regulator) make up the Federal Home Loan Bank System (FHLBank System). The FHLBanks were organized under the authority of the Federal Home Loan Bank Act of 1932, as amended (Act). The FHLBanks are commonly referred to as government-sponsored enterprises (GSEs), which generally means they are a combination of private capital and public sponsorship. The public sponsorship attributes include: (1) being exempt from federal, state and local taxation, except real estate taxes; (2) being exempt from registration under the Securities Act of 1933 (1933 Act) (although the FHLBanks are required by Finance Agency regulation and the Housing and Economic Recovery Act of 2008 (the Housing Act) to register a class of their equity securities under the Securities Exchange Act of 1934 (1934 Act)); and (3) having a line of credit with the United States Treasury.

The Bank is a cooperative institution, owned by financial institutions that are also its primary customers. Any building and loan association, savings and loan association, commercial bank, homestead association, insurance company, savings bank, credit union or insured depository institution that maintains its principal place of business in Delaware, Pennsylvania or West Virginia and that meets varying requirements can apply for membership in the Bank. The Housing Act expanded membership to include Community Development Financial Institutions (CDFIs). Pursuant to the Housing Act, the Finance Agency has proposed to amend its membership regulations to authorize non-federally insured CDFIs to become members of an FHLBank. The newly eligible CDFIs would include community development loan funds, venture capital funds and state-chartered credit unions without federal insurance. The proposed regulation sets out the eligibility and procedural requirements for CDFIs that wish to become members of an FHLBank. The comment period for the proposed regulation expired July 14, 2009. Management is evaluating the proposed regulation and its potential effect on the Bank. All members are required to purchase capital stock in the Bank as a condition of membership. The capital stock of the Bank can be purchased only by members.

The Bank’s primary mission is to intermediate between the capital markets and the housing market through member financial institutions. The Bank provides credit for housing and community development through two primary programs. First, it provides members with loans against the security of residential mortgages and other types of high-quality collateral; second, the Bank purchases residential mortgage loans originated by or through member institutions. The Bank also offers other types of credit and noncredit products and services to member institutions. These include letters of credit, interest rate exchange agreements (interest rate swaps, caps, collars, floors, swaptions and similar transactions), affordable housing grants, securities safekeeping, and deposit products and services. The Bank issues debt to the public (consolidated obligation bonds and discount notes) in the capital markets through the OF and uses these funds to provide its member financial institutions with a reliable source of credit for these programs. The United States government does not guarantee the debt securities or other obligations of the Bank or the FHLBank System.

The Bank is a GSE, chartered by Congress to assure the flow of liquidity through its member financial institutions into the American housing market. As a GSE, the Bank’s principal strategic position has historically been derived from its ability to raise funds in the capital markets at narrow spreads to the U.S. Treasury yield curve. Typically, this fundamental competitive advantage, coupled with the joint and several cross-guarantee on FHLBank System debt, has distinguished the Bank in the capital markets and has enabled it to provide attractively priced

funding to members. However, as the financial crisis worsened, the spread between FHLBank System debt and Treasury debt widened, making it more difficult for the Bank to provide term funding to members at attractive rates. During second quarter 2009, spreads narrowed, allowing the Bank to offer more attractive pricing. Though chartered by Congress, the Bank is privately capitalized by its member institutions, which are voluntary participants in its cooperative structure. The characterization of the Bank as a voluntary cooperative with the status of a federal instrumentality differentiates the Bank from a traditional banking institution in three principal ways.

First, members voluntarily commit capital required for membership principally in order to gain access to the funding and other services provided by the Bank. The value in membership may be derived from the access to liquidity and the availability of favorably priced liquidity, as well as the potential for dividend on the capital investment. Management recognizes that financial institutions choose membership in the Bank principally for access to attractively priced liquidity, dividends, and the value of the products offered within this cooperative.

Second, because the Bank's customers and shareholders are predominantly the same group of 319, normally there is a need to balance the pricing expectations of customers with the dividend expectations of shareholders, although both are the same institutions. This is a challenge in the current economic environment. By charging wider spreads on loans to customers, the Bank could potentially generate higher dividends for shareholders. Yet these same shareholders viewed as customers would generally prefer narrower loan spreads. In normal market conditions, the Bank strives to achieve a balance between the twin goals of providing liquidity and other services to members at advantageous prices and potentially generating an attractive dividend. The Bank typically does not strive to maximize the dividend yield on the stock, but to produce an earned dividend that compares favorably to short-term interest rates, compensating members for the cost of the capital they have invested in the Bank. As previously announced on December 23, 2008, the Bank has voluntarily suspended dividend payments until the Bank believes it is prudent to restore them, in an effort to build retained earnings. Following the significant increase in the Bank's risk-based capital requirement in November 2008 due to deterioration in the market values of the Bank's private label mortgage-backed securities (MBS), the Bank was narrowly in compliance with its risk-based capital requirement. As a result, the Bank submitted a capital restoration plan to the Finance Agency on February 27, 2009. The plan submitted to the Finance Agency requests that the Bank not be required to increase member capital requirements unless it becomes significantly undercapitalized, which by definition would mean the Bank meets less than 75% of its risk-based, total or leverage capital requirements. As part of that effort, the Bank is reviewing its risk governance structure, risk management practices and expertise, and has engaged an outside consultant to assist in this review.

The Bank was in compliance with its risk-based, total and leverage capital requirements at June 30, 2009. On August 3, 2009, the Bank received final notification that it was considered adequately capitalized for the quarter ended March 31, 2009; however, the Finance Agency has raised concerns regarding the ratio of the Bank's level of accumulated other comprehensive loss to retained earnings and the ratio of the Bank's market value of equity to the par value of capital stock. As of the date of this filing, the Bank has not received a notice from the Finance Agency regarding its capital classification for the quarter ended June 30, 2009. On August 4, 2009, the Finance Agency issued its final Prompt Corrective Action Regulation (PCA Regulation) incorporating the terms of the Interim Final Regulation issued on January 30, 2009. See the "Legislative and Regulatory Developments" discussion in this Management's Discussion and Analysis of Financial Condition and Results of Operations (Management's Discussion and Analysis) in this report filed on Form 10-Q for additional information. The Bank is also updating its capital restoration plan.

Finally, the Bank is different from a traditional banking institution because its GSE charter is based on a public policy purpose to assure liquidity for housing and to enhance the availability of affordable housing for lower-income households. In upholding its public policy mission, the Bank offers a number of programs that consume a portion of earnings that might otherwise become available to its shareholders. The cooperative GSE character of this voluntary membership organization leads management to strive to optimize the primary purpose of membership, access to funding, as well as the overall value of Bank membership.

Loans to Members

The Bank makes loans to members and eligible nonmember housing associates based upon the security of pledged mortgages and other eligible types of collateral. The Act requires the Bank to obtain and maintain a security interest in eligible collateral at the time it originates or renews a loan.

Loan Products. The Bank offers a number of various loan products to its members. These products are discussed in detail in the Loans to Members discussion in Item 1. Business in the Bank's 2008 Annual Report filed on Form 10-K. The Bank has recently reviewed the extensive product line in an attempt to simplify the list of options available to customers and provide those products used most by members. These changes became effective August 3, 2009.

Collateral. The Bank provides members with two options regarding collateral agreements: a blanket collateral pledge agreement and a specific collateral pledge agreement. These agreements require one of three types of collateral status: undelivered, detailed listing or delivered status. All collateral securing loans to members is discounted to help protect the Bank from losses resulting from a decline in the values of the collateral in adverse market conditions. Eligible collateral value represents either book value or fair value of pledged collateral multiplied by the applicable discounts. These discounts, also referred to as collateral weightings, vary by collateral type and whether the calculation is based on book value or fair value of the collateral. They also typically include consideration for estimated costs to sell or liquidate collateral and the risk of a decline in the collateral value due to market or credit volatility. As additional security for each member's indebtedness, the Bank has a statutory lien on the member's capital stock in the Bank.

The Bank determines the type and amount of collateral each member has available to pledge as security for Bank loans by reviewing, on a quarterly basis, the call reports the members file with their primary banking regulators. Depending on a member's credit product usage and current financial condition, that member may also be required to file a Qualifying Collateral Report (QCR) on a quarterly or monthly basis. At June 30, 2009, the principal form of eligible collateral to secure loans made by the Bank was single-family residential mortgage loans, which included a very low amount of manufactured housing loans. Securities, including U.S. Treasuries, U.S. agency securities, GSE MBS, and private label MBS with a credit rating of AAA are also accepted as collateral. FHLBank deposits and multi-family residential mortgages, as well as other real estate related collateral (ORERC), comprised a portion of qualifying collateral. See the "Credit and Counterparty Risk" discussion in the Risk Management section of this Item 2. Management's Discussion and Analysis in this report filed on Form 10-Q for details regarding amounts and percentages of eligible collateral securing loans as of June 30, 2009.

Effective May 4, 2009, the Bank revised its policies, and no longer accepts subprime mortgages as qualifying collateral. Historically, the Bank has required members to identify the amount of subprime and Alt-A mortgage collateral in the members' quarterly reporting of mortgage data. This amount was deducted from the calculation of the member's borrowing capacity (MBC). Members could then request that subprime and Alt-A mortgage loan collateral be added back to their eligible collateral pool with the understanding that they will be subject to a rigorous on-site review of such collateral and related analyses and practices. Collateral weightings continue to be determined on a case-by-case basis. While the Bank no longer accepts subprime mortgages, it does still accept Alt-A mortgages and follows the same process.

Although subprime mortgages are not considered an eligible collateral asset class by the Bank, it is possible that the Bank may have subprime mortgages pledged as collateral through the blanket-lien pledge.

At June 30, 2009 and December 31, 2008, on a borrower-by-borrower basis, the Bank maintained a security interest in collateral with an eligible collateral value (after collateral weightings) in excess of the book value of all loans. Management believes that adequate policies and procedures are in place to effectively manage the Bank's credit risk associated with lending to members and nonmember housing associates.

On July 20, 2009, several collateral policy changes became effective for the Bank's members. First, the Bank will require delivery to a restricted account of all securities pledged as collateral. This requirement will further protect its security interest and provide protection for both the Bank and its members. Second, the Bank will accept Temporary Liquidity Guaranty Program (TLGP) debt owned by a member as eligible collateral. This collateral will be subject to the same lending value assigned to U.S. agency securities. In general, all securities collateral must be

rated AAA in order to qualify as eligible collateral to originate or renew a credit product. However, the Bank has begun to prudently accept private label MBS rated AA for certain members with high credit ratings, as determined by the Bank. These securities will be collateral weighted at 50% for blanket lien agreements and 40% for specific pledge agreements. Other collateral policy changes are currently being finalized for implementation later in 2009.

From January 1, 2009 through June 30, 2009, nationally 45 Federal Deposit Insurance Corporation (FDIC) – insured institutions have failed. None of the FHLBanks has incurred any losses on loans outstanding to these institutions. Although the majority of these institutions were members of the System, none was a member of the Bank.

Investments

The Bank maintains a portfolio of investments for two main purposes: liquidity and additional earnings. For liquidity purposes, the Bank invests in shorter-term instruments such as overnight Federal funds and securities sold under agreement to repurchase to ensure the availability of funds to meet member credit needs. The Bank also invests in other short-term investments, including term Federal funds, interest-earning certificates of deposit and commercial paper. The Bank also maintains a secondary liquidity portfolio, which may include TLGP investments, U.S. Treasury and agency securities and other GSE securities that can be financed under normal market conditions in securities repurchase agreement transactions to raise additional funds. The Bank further enhances interest income by maintaining a long-term investment portfolio, including securities issued by GSEs and state and local government agencies and MBS.

See the “Credit and Counterparty Risk” discussion in the Risk Management section of Management’s Discussion and Analysis in this report filed on Form 10-Q for further discussion of the investment portfolio and related credit risk, including other-than-temporary impairment (OTTI) charges.

Mortgage Partnership Finance (MPF) Program

The Bank participates in the Mortgage Partnership Finance (MPF®) Program under which the Bank invests in qualifying 5- to 30-year conventional conforming and government-insured fixed-rate mortgage loans secured by one-to-four family residential properties.

The Bank currently offers two products under the MPF Program that are differentiated primarily by their credit risk structures: Original MPF and MPF Government. Further details regarding the credit risk structure for each of the products, as well as additional information regarding the MPF Program and the products offered by the Bank, is provided in the “Mortgage Partnership Finance Program” section in Item 7. Management’s Discussion and Analysis in the Bank’s 2008 Annual Report filed on Form 10-K.

The Bank held approximately \$5.6 billion and \$6.1 billion in mortgage loans at par under the MPF Program at June 30, 2009 and December 31, 2008, respectively; these balances represented approximately 7.3% and 6.7% of total assets at June 30, 2009 and December 31, 2008, respectively. Mortgage loans contributed approximately 18.1% and 9.7% of total interest income for the second quarters of 2009 and 2008, respectively. For the six months ended June 30, 2009 and 2008, the contribution was 17.0% and 8.4%, respectively. While interest income on mortgage loans dropped 6.4% in the year-over-year comparison, the Bank’s total interest income decreased 53.7%. This sharp decline in total interest income resulted in the increase in the ratio of mortgage interest income to total interest income.

Effective May 1, 2009, there was an increase in the stock purchase requirement percentage for Acquired Member Assets (AMA) activity to 4.0% on a prospective basis only. Previously, the stock purchase requirement percentage for AMA activity was 0.0%. AMA activity includes participation in the MPF program.

In February 2009 the Bank announced plans to offer a third product, MPF Xtra, to members. MPF Xtra allows Participating Financial Institutions (PFIs) to sell residential, conforming fixed-rate mortgages to FHLBank of Chicago, which concurrently sells them to Fannie Mae on a nonrecourse basis. MPF Xtra does not have the credit enhancement structure of the traditional MPF Program and these loans are not reported on the Bank’s balance sheet. In the MPF Xtra product, there is no credit obligation assumed by the PFI or the Bank and no credit enhancement fees paid. PFIs which have completed all required documentation and training are eligible to participate in the

program. As of June 30, 2009, 26 PFIs were eligible to participate in the program. Of these, seven have sold \$3.9 million of mortgage loans through the MPF Xtra product.

Effective July 15, 2009, the Bank introduced a temporary loan payment modification plan (modification plan) for participating PFIs, which will be available until December 31, 2011 unless further extended by the MPF Program. Borrowers with conventional loans secured by their primary residence, which were closed prior to January 1, 2009 are eligible for the modification plan. This modification plan pertains to borrowers currently in default or in imminent danger of default. In addition, there are specific eligibility requirements that must be met and procedures that the PFIs must follow to participate in the modification plan. As of July 31, 2009, there has been no activity under this modification plan.

Debt Financing – Consolidated Obligations

The primary source of funds for the Bank is the sale of debt securities, known as consolidated obligations. These consolidated obligations are issued as both bonds and discount notes, depending on maturity. Consolidated obligations are the joint and several obligations of the FHLBanks, backed by the financial resources of the twelve FHLBanks. Consolidated obligations are not obligations of the United States government, and the United States government does not guarantee them. The OF has responsibility for issuing and servicing consolidated obligations on behalf of the FHLBanks. On behalf of the Bank, the OF issues bonds that the Bank uses primarily to provide loans to members. The Bank also uses bonds to fund the MPF Program and its investment portfolio. Typically, the maturity of these bonds ranges from one year to ten years, but the maturity is not subject to any statutory or regulatory limit. The OF also sells discount notes to provide short-term funds to the FHLBanks. The Bank uses these funds to provide loans to members for seasonal and cyclical fluctuations in savings flows and mortgage financing, short-term investments, and other funding needs. Discount notes are sold at a discount and mature at par. These securities have maturities of up to 365 days.

See the “Liquidity and Funding Risk” discussion in the Risk Management section of Management’s Discussion and Analysis in this report filed on Form 10-Q and the “Current Financial and Mortgage Market Events and Trends” discussion below for further information regarding consolidated obligations and related liquidity risk.

Current Financial and Mortgage Market Events and Trends

Market Actions and Reactions. Economic conditions continued to deteriorate in the second quarter of 2009, albeit at a slower pace than previous quarters. Housing and financial markets have been in tremendous turmoil since the middle of 2007, with repercussions throughout the U.S. and global economies, and the U.S. economy is in a recession. Limited liquidity in the credit markets, increasing mortgage delinquencies and foreclosures, falling real estate values, the collapse of the secondary market for MBS, loss of investor confidence, a highly volatile stock market, interest rate fluctuations, and the failure of a number of large and small financial institutions are all indicators of the severe economic crisis facing the U.S. and the rest of the world. These economic conditions, particularly in the housing and financial markets, combined with ongoing uncertainty about the depth and duration of the financial crisis and the recession, continued to affect the Bank’s business and results of operations, as well as its members, during the first six months of 2009 and may continue to have adverse effects for the near future. Specifically, the weakness in the U.S. economy in the second quarter of 2009 continued to affect the credit quality of the loan collateral underlying certain MBS in the Bank’s investment portfolio, resulting in OTTI on some securities. As a result of the severe lack of liquidity in the MBS market, which adversely affected the valuation of MBS, the OTTI charge taken on the affected securities significantly exceeded the credit losses and resulted in a material increase in accumulated other comprehensive loss. To continue building retained earnings and preserve the Bank’s capital, the Bank has maintained its suspension of dividend payments and excess capital stock repurchases through second quarter 2009 and has no current expectation that this will change in the foreseeable future.

In response to the financial crisis, the U.S. and other governments and their central banks have continued to develop and implement an increasingly aggressive set of initiatives in an ongoing effort to provide support for and to restore the functioning of the global credit markets. The American Recovery and Reinvestment Act of 2009 (the Recovery Act) is an economic stimulus package signed into law by President Barack Obama on February 17, 2009. The Recovery Act is intended to provide a stimulus to the U.S. economy in the wake of the economic downturn. The

measures are nominally worth \$787 billion. The Act includes federal tax relief, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure, including the energy sector. The Act also includes numerous non-economic recovery related items that were either part of longer-term plans (e.g. a study of the effectiveness of medical treatments) or desired by Congress (e.g. a limitation on executive compensation in federally aided banks).

On March 18, 2009, to provide greater support to mortgage lending and the housing market, the Federal Reserve Board (FRB) announced that it would purchase up to an additional \$750 billion of agency MBS, increasing its total purchase authority to \$1.25 trillion since the inception of this program. The FRB also announced that it would purchase up to an additional \$100 billion in agency debt issued by Fannie Mae, Freddie Mac and the FHLBanks, increasing its total purchase authority to a total of up to \$200 billion since the inception of this program. Additionally, to help improve conditions in private credit markets, the FRB announced that it would purchase up to \$300 billion of longer-term U.S. Treasury securities over the next six months.

During the second quarter of 2009, the Federal Reserve Bank of New York (FRBNY) continued to support the capital markets through the purchase of GSE term debt, Agency MBS, and Treasuries. As such, FRBNY purchased approximately \$44 billion in GSE term debt, including \$10.3 billion of FHLBank mandated Global bullets during the quarter. By the end of June, FRBNY purchases of Agency debt were up to \$97 billion, or almost 50% of the \$200 billion allocated to the program.

From April 2 to June 30, the FRBNY purchased approximately a gross \$540 billion in GSE MBS, including approximately \$221 billion in purchases related to dollar rolls, which, similar to repurchase agreements, provide holders of mortgage-backed securities with a form of short-term financing. For the first six months of 2009, the FRBNY purchased approximately \$964 billion in GSE MBS, including approximately \$342 billion in purchases related to dollar rolls which provide holders of MBS with a form of short-term financing, similar to repurchase agreements. Finally, FRBNY purchases of U.S. Treasury securities also continued with the FRBNY buying an additional \$162 billion in Treasuries during the quarter. Since inception through June 30, 2009, the FRBNY has purchased \$180 billion in U.S. Treasuries, which has brought total purchases to 60% of the \$300 billion committed under the program.

The FDIC's TLGP was established to unfreeze interbank lending, encourage lending more broadly and enhance confidence in the banking system. Through June 30, 2009, approximately \$164.5 billion in TLGP-wrapped bonds were priced. On February 10, 2009, in a joint statement, U.S. Treasury, Board of Governors of the Federal Reserve System, FDIC, Comptroller of the Currency and the Office of Thrift Supervision announced the Capital Assistance Program, the Public-Private Investment Program (PPIP), a "dramatic" expansion of the Term Asset-Backed Securities Lending Facility (TALF) and the extension of the TLGP by four months to October 31, 2009. In order to gradually phase out the program, the FDIC began assessing a surcharge on TLGP debt that was issued in the second quarter of 2009 with a maturity date of one year or longer. On March 19, 2009, the FRB announced that the range of eligible collateral for TALF funding that began in April 2009 was expanded to include asset-backed securities (ABS) backed by mortgage servicing advances, loans or leases relating to business equipment, leases of vehicle fleets and floor-plan loans. In May 2009, the eligible collateral for TALF funding was further expanded to include commercial MBS.

On March 23, 2009, the U.S. Treasury, Federal Reserve and FDIC announced a framework for the PPIP. The PPIP is a two-part program designed to remove "toxic" assets from bank balance sheets and improve credit availability to households and businesses. The first part of the PPIP, known as the legacy loan program, is designed to attract private capital to purchase troubled loans from banks. These transactions will be facilitated by FDIC guarantees and equity provided by the U.S. Treasury using TARP funds. The second part of the PPIP, known as the legacy securities program, includes (1) an expansion of the TALF to include legacy securitization assets and (2) Public-Private Investment Funds (PPIF), whereby pre-qualified fund managers will purchase legacy securities with a combination of private capital and U.S. Treasury funds. On July 8, 2009, the U.S. Treasury announced that it had selected the initial nine PPIP fund managers to purchase legacy securities including commercial and residential MBS originally issued prior to 2009 that were originally rated AAA by two or more Nationally Recognized Statistical Rating Organizations (NRSROs).

On May 20, 2009, the Helping Families Save Their Home Act of 2009 was enacted to encourage loan modifications in order to prevent mortgage foreclosures and to support the federal deposit insurance system. One provision in the act provides a safe harbor from liability for mortgage servicers who modify the terms of a mortgage consistent with certain qualified loan modification plans.

During the second quarter of 2009, financial services companies turned toward the equity markets to pay off TARP borrowings and raise additional capital required by the results of bank stress-testing. During May 2009, the U.S. Treasury announced plans to inject TARP funds into several insurance companies and the markets focused on the breakup of AIG. Further, market participants and regulators turned their attention toward the safety and security of money market funds with the result being industry-wide recommendations and SEC-proposed rule changes.

While economic data remained mixed during the quarter, funding was both accessible and attractively priced for the FHLBanks. During the second quarter of 2009, as the aggregate liability for the FHLBanks continued to shrink, redemptions resulting from both scheduled maturities and exercised calls, outpaced issuance. Consolidated obligations outstanding dropped an additional \$78 billion in second quarter 2009 with discount notes decreasing more than bonds. Consolidated obligations outstanding closed the quarter at levels last seen in late August 2007. Further, the weighted average number of days to maturity of FHLBank bonds outstanding rose slightly in April, but then began to decline for the remainder of the quarter. The weighted average number of days to maturity for discount notes outstanding remained relatively stable for the first two months of the quarter, followed by a drop in June.

Investors continued to demonstrate some risk aversion during the second quarter of 2009 by focusing their investments in high quality, short-term instruments. Primarily due to the implicit support from the U.S. government, investors continue to view short-term FHLBank debt as carrying a strong credit profile which has resulted in strong investor demand for FHLBank discount notes and short-term bonds. Because of this strong demand, the cost to issue short-term consolidated obligations remained low throughout the second quarter of 2009. While the volume of FHLBank bonds issued in the second quarter of 2009 was slightly less than during the first quarter of 2009, it was still more than double the volume of bonds issued in fourth quarter 2008. As was the case in the first quarter of 2009, the FHLBanks, in aggregate, continued to rely on negotiated bullets and floating-rate securities for more than 50% of bond funding. However, for the first time since January, the FHLBanks issued \$30 million in auctioned bullets (TAPs) in June. TAP auction results indicate the willingness of securities dealers to take risk positions as an interim step in the bond distribution process. FHLBank bond funding costs improved significantly during second quarter 2009, as weighted average bond funding costs in June 2009 were the lowest in more than twelve months. In April 2009, the FHLBanks issued \$3 billion of a new two-year mandated Global bullet debt, as well as a \$750 million re-opening of a ten-year mandated Global bullet debt that had rolled down to five years in remaining maturity at the time of pricing. In May 2009, the FHLBanks issued \$3 billion of new three-year mandated Global bullet debt and in June the FHLBanks issued \$5 billion of a new 2-year mandated Global bullet debt.

Overall, total FHLBank System debt outstanding continued to decrease during the first six months of 2009, falling an additional \$195.7 billion, or 15.6%, since year-end 2008 due to a decline in both bonds and discount notes outstanding. Total FHLBank System bonds decreased \$97.1 billion, or 12.0%, from December 31, 2008 to June 30, 2009 while discount notes decreased \$98.6 billion, or 22.3%, in the same comparison. Discount notes, as a percentage of total debt outstanding, have decreased from approximately 35% at year-end 2008 to approximately 32% at June 30, 2009. On an absolute basis, total discount notes decreased 22.3% from year-end, while total bonds only decreased 12.0%. This decline drove the decrease in the percentage of discount notes to total consolidated obligations.

On a stand-alone basis, the Bank's discount note portfolio decreased significantly, from \$22.9 billion at December 31, 2008 to \$15.5 billion at June 30, 2009, a decline of \$7.4 billion, or 32.3%. Discount notes accounted for 22.3% and 27.1% of total Bank net consolidated obligations at June 30, 2009 and December 31, 2008, respectively. Total bonds decreased in the same comparison, but comprised a greater percentage of the total debt portfolio, increasing from 72.9% at December 31, 2008 to 77.7% at June 30, 2009. On an absolute basis, total bonds only decreased 11.9% from December 31, 2008, while discount notes decreased 32.0% from year-end, resulting in an increase in the percentage of bonds to total consolidated obligations from year-end 2008 to June 30, 2009.

Foreign official holdings of GSE securities fluctuated during the second quarter of 2009. Initially, these holdings increased approximately \$10 billion during late April and early May. However, this trend reversed course

and foreign holdings were down \$3.8 billion at June 30, 2009 compared to March 31, 2009. Primary securities dealer inventories of GSE debt declined in the second quarter of 2009, with discount note inventories down \$9.6 billion and bond inventories down \$6.9 billion. Since late September 2008, money market funds, in aggregate, had been increasing their asset allocation to short-term GSE debt. After stabilizing in first quarter 2009, taxable money market fund assets began a decline in second quarter 2009, falling \$121 billion. In March, the money market fund industry adopted recommendations to be implemented by September 2009. These changes along with proposed rule-changes by the SEC could have profound effects on how these investors participate in the Agency debt markets.

The Bank's net interest income is affected by several external factors, including market interest rate levels and volatility, credit spreads and the general state of the economy. Interest rates prevailing during any reporting period affect the Bank's profitability for that reporting period, due primarily to the short-term structure of earning assets and the effect of interest rates on invested capital. A portion of the Bank's loans to members has been hedged with interest-rate exchange agreements in which a short-term, variable rate is received. Interest rates also directly affect the Bank through earnings on invested capital. Generally, due to the Bank's cooperative structure, the Bank earns relatively narrow net spreads between the yield on assets and the cost of corresponding liabilities.

The following table presents key market interest rates for the periods indicated (obtained from Bloomberg L.P.).

	2nd Quarter 2009 Average	1st Quarter 2009 Average	2nd Quarter 2008 Average	Average Year-to-Date 2009	Average Year-to-Date 2008	2nd Quarter 2009 Ended	1st Quarter 2009 Ended	2nd Quarter 2008 Ended
Target overnight Federal funds rate	0.25%	0.25%	2.08%	0.25%	2.65%	0.25%	0.25%	2.00%
3-month LIBOR ⁽¹⁾	0.84%	1.24%	2.75%	1.04%	3.02%	0.60%	1.19%	2.78%
2-yr U.S. Treasury	1.00%	0.89%	2.41%	0.95%	2.21%	1.12%	0.80%	2.62%
5-yr. U.S. Treasury	2.23%	1.75%	3.15%	1.99%	2.95%	2.56%	1.66%	3.33%
10-yr. U.S. Treasury	3.30%	2.70%	3.87%	3.00%	3.76%	3.54%	2.67%	3.97%
15-yr. mortgage Current coupon ⁽²⁾	3.84%	3.74%	5.08%	3.79%	4.89%	4.01%	3.59%	5.35%
30-yr. mortgage current coupon ⁽²⁾	4.31%	4.13%	5.58%	4.22%	5.48%	4.63%	3.89%	5.85%

Note:

(1) LIBOR - London Interbank Offered Rate

(2) Simple average of Fannie Mae and Freddie Mac mortgage-backed securities current coupon rates.

The Bank is also heavily affected by the residential mortgage market through the collateral securing member loans and holdings of mortgage-related assets. As of June 30, 2009, 49.7% of the Bank's eligible collateral value, after collateral weightings, was concentrated in 1-4 single family residential mortgage loans or multi-family residential mortgage loans, compared with 45.5% at December 31, 2008. The remaining 50.3% at June 30, 2009 was concentrated in other real-estate related collateral and high quality investment securities, compared to 54.5% at December 31, 2008. For the top ten borrowers, 1-4 single family residential mortgage loans or multi-family residential mortgage loans accounted for 57.0% of total eligible collateral, after collateral weightings, at June 30, 2009, compared to 47.3% at December 31, 2008. The remaining 43.0% at June 30, 2009 was concentrated in other real-estate related collateral and high quality investment securities, compared to 52.7% at December 31, 2008. In addition, as of June 30, 2009, the Bank's private label MBS portfolio represented 8.9% of total assets, while net mortgage loans held for portfolio represented 7.3% of total assets. At December 31, 2008, the comparable percentages were 9.4% and 6.8%, respectively.

The Bank continues to have high concentrations of its loans to members portfolio outstanding to its top ten borrowers. The Bank's loans to members portfolio declined from December 31, 2008 to June 30, 2009, decreasing \$16.4 billion, or 26.4%, due to a slowing of new loan growth and increased access by members to other government funding sources.

In addition, see the “Credit and Counterparty Risk” and “Market Risk” discussions in the Risk Management section of Management’s Discussion and Analysis in this report filed on Form 10-Q for information related to derivative counterparty risk and overall market risk of the Bank.

Lehman Brothers Holding, Inc. (Lehman) and Lehman Brothers Special Financing, Inc. On September 15, 2008, Lehman filed for bankruptcy. At that time, Lehman’s subsidiary, Lehman Brothers Special Financing, Inc. (LBSF) was the Bank’s largest derivatives counterparty, with a total of 595 outstanding derivative trades having a total notional value of \$16.3 billion. Lehman was a guarantor under the Bank’s agreement with LBSF such that Lehman’s bankruptcy filing triggered an event of default. The Bank posted cash collateral to secure its exposure to Lehman on its derivative transactions. As a result of the bankruptcy filing, the Bank evaluated the outstanding trades it had with LBSF to assess which individual derivatives were most important to the Bank’s overall risk position. Of the 595 trades, 63 represented approximately half of the total LBSF notional value and almost 100% of the base case duration impact of the LBSF portfolio. Therefore, the Bank elected to enter into 63 identical new trades with different counterparties on September 18, 2008.

Management determined that it was in the Bank’s best interest to declare an event of default and designate September 19, 2008 as the early termination date of the Bank’s agreement with LBSF, as provided for in the agreement. Accordingly, all LBSF derivatives were legally terminated at that time and the Bank began the process of obtaining third party quotes for all of the derivatives in order to settle its position with LBSF in accordance with the International Swaps Dealers Association, Inc. (ISDA) Master Agreement (Master Agreement). The Bank sent a final settlement notice to LBSF and demanded return of the balance of posted Bank collateral, which, including dealer quotes for all trades, the collateral position, and the applicable accrued interest netted to an approximate \$41.5 million receivable from LBSF.

The Bank filed an adversary proceeding against LBSF and J.P. Morgan Chase Bank, N.A. (JP Morgan) to return the cash collateral posted by the Bank associated with the derivative contracts. See discussion within Item 3. Legal Proceedings in the Bank’s 2008 Annual Report filed on Form 10-K for more information with respect to the proceeding. In its Third Quarter 2008 Form 10-Q and its 2008 Annual Report filed on Form 10-K, the Bank disclosed that it was probable that a loss has been incurred with respect to this receivable. However, the Bank had not recorded a reserve with respect to the receivable from LBSF because the Bank was unable to reasonably estimate the amount of loss that had been incurred. There have been continuing developments in the adversary proceeding, that have occurred since the filing of the Bank’s Form 10-K. The discovery phase of the adversary proceeding is now underway, which has provided management information related to its claim. Based on this information, management’s most probable estimated loss is \$35.3 million and a reserve was recorded in first quarter 2009. As of June 30, 2009, the Bank maintained a \$35.3 million reserve on this receivable as this remains the most probable estimated loss.

During discovery in the Bank’s adversary proceeding against LBSF, the Bank learned that LBSF had failed to keep the Bank’s posted collateral in a segregated account in violation of the Master Agreement between the Bank and LBSF. In fact, the posted collateral was held in a general operating account of LBSF the balances of which were routinely swept to other Lehman Brother entities, including Lehman Brothers Holdings, Inc. among others. After discovering that the Bank’s posted collateral was transferred to other Lehman entities and not held by JP Morgan, the Bank agreed to discontinue the LBSF adversary proceeding against JP Morgan. JP Morgan was dismissed from the Bank’s proceeding on June 26, 2009. In addition, the Bank is prepared to discontinue its LBSF adversary proceeding against LBSF, as that claim can be satisfactorily proved in the LBSF bankruptcy through the proof of claim process, which makes pursuing the adversary proceeding as against LBSF unnecessary.

The Bank has filed a new complaint against Lehman Brothers Holding Inc., Lehman Brothers, Inc., Lehman Brothers Commercial Corporation, Woodlands Commercial Bank, formerly known as Lehman Brothers Commercial Bank, and Aurora Bank FSB (Aurora), formerly known as Lehman Brothers Bank FSB, alleging unjust enrichment, constructive trust, and conversion claims. Aurora is a member of the Bank. Aurora did not hold more than 5% of the Bank’s capital stock as of June 30, 2009.

Financial Highlights

The Statement of Operations data for the three and six months ended June 30, 2009 and 2008 and the Condensed Statement of Condition data as of June 30, 2009 are unaudited and were derived from the financial statements included in this report. The Condensed Statement of Condition data as of December 31, 2008 was derived from the audited financial statements in the Bank's 2008 Annual Report filed on Form 10-K.

Statement of Operations

(in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net interest income before provision for credit losses	\$ 75.9	\$ 88.6	\$ 132.3	\$ 178.3
Provision for credit losses	1.1	2.1	1.5	3.4
Net OTTI losses	(39.3)	-	(69.8)	-
Net gains (losses) on derivatives and hedging activities	12.4	(0.7)	11.2	3.7
Contingency reserve	-	-	(35.3)	-
All other income	2.5	1.9	5.1	2.9
Other expense	15.3	15.6	30.5	31.1
Income before assessments	35.1	72.1	11.5	150.4
Assessments	3.0	19.1	3.0	39.9
Net income	\$ 32.1	\$ 53.0	\$ 8.5	\$ 110.5
Earnings per share ⁽¹⁾	\$ 0.80	\$ 1.31	\$ 0.21	\$ 2.70
Dividends	\$ -	\$ 38.4	\$ -	\$ 86.4
Weighted average dividend rate ⁽²⁾	-	3.75%	-	4.36%
Return on average capital	3.31%	4.89%	0.42%	5.07%
Return on average assets	0.16%	0.21%	0.02%	0.22%
Net interest margin ⁽³⁾	0.39%	0.36%	0.33%	0.36%
Total period-end capital to period-end assets ⁽⁴⁾	4.59%	4.37%	4.59%	4.37%
Total average capital to average assets	4.88%	4.31%	4.81%	4.29%

Notes:

- (1) Earnings per share calculated based on net income.
- (2) Weighted average dividend rates are calculated as annualized dividends paid in the period divided by the average capital stock balance outstanding during the period on which the dividend is based.
- (3) Net interest margin is net interest income before provision for credit losses as a percentage of average interest-earning assets.
- (4) Total capital ratio is capital stock plus retained earnings and accumulated other comprehensive loss as a percentage of total assets at period end.

Condensed Statement of Condition

(in millions)	June 30, 2009	December 31, 2008
Loans to members	\$ 45,799.6	\$ 62,153.4
Investments - Federal funds sold, interest-earning deposits and investment securities ⁽¹⁾	24,444.3	21,798.1
Mortgage loans held for portfolio, net	5,607.5	6,165.3
Prepaid REFCORP assessment	37.5	39.6
Total assets	76,401.6	90,805.9
Deposits and other borrowings ⁽²⁾	2,105.4	1,491.1
Consolidated obligations, net ⁽³⁾	69,628.6	84,263.0
AHP payable	32.7	43.4
Capital stock-putable	4,007.1	3,981.7
Retained earnings	434.9	170.5
Accumulated other comprehensive loss	(938.1)	(17.3)
Total capital	3,503.9	4,134.9

Notes:

- (1) None of these securities were purchased under agreements to resell.
- (2) Includes mandatorily redeemable capital stock.
- (3) Aggregate FHLB System-wide consolidated obligations (at par) were \$1.1 trillion and \$1.3 trillion at June 30, 2009 and December 31, 2008, respectively.

Forward-Looking Information

Statements contained in this quarterly report on Form 10-Q, including statements describing the objectives, projections, estimates, or predictions of the future of the Bank, may be “forward-looking statements.” These statements may use forward-looking terms, such as “anticipates,” “believes,” “could,” “estimates,” “may,” “should,” “will,” or their negatives or other variations on these terms. The Bank cautions that by their nature, forward-looking statements involve risk or uncertainty and that actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction is realized. These forward-looking statements involve risks and uncertainties including, but not limited to, the following: economic and market conditions, including, but not limited to, real estate, credit and mortgage markets; volatility of market prices, rates, and indices; political, legislative, regulatory, litigation, or judicial events or actions; changes in the Bank’s capital structure; changes in the Bank’s capital requirements; membership changes; changes in the demand by Bank members for Bank loans to members; an increase in loans to members prepayments; competitive forces, including the availability of other sources of funding for Bank members; changes in investor demand for consolidated obligations and/or the terms of interest rate exchange agreements and similar agreements; the ability of the Bank to introduce new products and services to meet market demand and to manage successfully the risks associated with new products and services; the ability of each of the other FHLBanks to repay the principal and interest on consolidated obligations for which it is the primary obligor and with respect to which the Bank has joint and several liability; and timing and volume of market activity. This Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Bank’s unaudited interim financial statements and notes and Risk Factors included in Part II, Item 1A of the Bank’s quarterly report filed on Form 10-Q for First Quarter 2009, as well as Risk Factors in Item 1A of the Bank’s 2008 Annual Report filed on Form 10-K.

Earnings Performance

The following is Management's Discussion and Analysis of the Bank's earnings performance for the three and six months ended June 30, 2009 compared to the three and six months ended June 30, 2008. This discussion should be read in conjunction with the unaudited interim financial statements and notes included in this report filed on Form 10-Q as well as the audited financial statements and analysis for the year ended December 31, 2008, included in the Bank's 2008 Annual Report filed on Form 10-K.

Summary of Financial Results

Net Income and Return on Capital. The Bank's second quarter 2009 net income was \$32.1 million, a decrease of \$20.9 million, or 39.4%, compared to second quarter 2008. This decrease was primarily driven by OTTI credit losses on the Bank's investment portfolio and lower net interest income. The Bank's return on average capital declined to 3.31% in the second quarter of 2009, down from 4.89% in the same year-ago period. While both net income and average capital declined in the quarter-over-quarter comparison, net income declined at a higher rate than average capital. This resulted in a decrease in the Bank's return on average capital.

Net income for the six months ended June 30, 2009 was \$8.5 million, a decrease of \$102.0 million, or 92.3%, over the prior year results, driven by OTTI credit losses, the LBSF contingency reserve and lower net interest income. The Bank's return on average capital for the six months ended June 30, 2009 declined to 0.42%, down from 5.07% in the same year-ago period. The significant decline in year-to-date net income drove the year-to-date June 2009 return on average capital down significantly.

Details of the Statement of Operations are presented more fully below.

Dividend Rate. Management regards quarterly dividend payments as an important vehicle through which a direct investment return is provided to the Bank's members. On December 23, 2008, the Bank announced its decision to voluntarily suspend payment of dividends for the foreseeable future. Therefore, there were no dividends declared or paid in the first six months of 2009. The Bank's weighted average dividend rate was 3.75% in the second quarter of 2008 and 4.36% for the six months ended June 30, 2008. See additional discussion regarding dividends and retained earnings levels in the "Financial Condition" section of this Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in this report filed on Form 10-Q.

Net Interest Income

The following table summarizes the rate of interest income or interest expense, the average balance for each of the primary balance sheet classifications and the net interest margin for the three and six months ended June 30, 2009 and 2008.

Average Balances, Interest Income/Expense and Yields/Rates Paid

	Three Months Ended June 30,					
	2009			2008		
(dollars in millions)	Average Balance ⁽¹⁾	Interest Income/ Expense	Avg. Yield/ Rate (%)	Average Balance ⁽¹⁾	Interest Income/ Expense	Avg. Yield/ Rate (%)
Assets						
Federal funds sold ⁽²⁾	\$ 114.3	\$ 0.1	0.17	\$ 4,015.1	\$ 20.1	2.02
Interest-earning deposits	8,050.6	5.0	0.25	406.7	2.2	2.16
Investment securities ⁽³⁾	16,216.0	143.3	3.55	19,692.2	209.0	4.27
Loans to members ⁽⁴⁾	47,277.1	169.9	1.44	68,345.4	490.3	2.89
Mortgage loans held for portfolio ⁽⁵⁾	5,790.2	70.3	4.87	6,081.1	77.9	5.15
Total interest-earning assets	77,448.2	388.6	2.01	98,540.5	799.5	3.26
Allowance for credit losses	(15.3)			(9.1)		
Other assets ⁽⁴⁾⁽⁵⁾⁽⁶⁾	2,234.1			2,508.7		
Total assets	\$79,667.0			\$ 101,040.1		
Liabilities and capital						
Deposits	\$ 1,832.8	\$ 0.4	0.09	\$ 2,028.4	\$ 10.0	1.98
Consolidated obligation discount notes	15,859.8	8.8	0.22	27,488.6	157.1	2.30
Consolidated obligation bonds ⁽⁴⁾	55,465.2	303.5	2.20	65,181.5	543.7	3.35
Other borrowings	8.5	-	0.79	7.0	0.1	4.13
Total interest-bearing liabilities	73,166.3	312.7	1.71	94,705.5	710.9	3.02
Other liabilities ⁽⁴⁾	2,616.4			1,981.4		
Total capital	3,884.3			4,353.2		
Total liabilities and capital	\$79,667.0			\$ 101,040.1		
Net interest spread			0.30			0.24
Impact of noninterest-bearing funds			0.09			0.12
Net interest income/ net interest margin		\$ 75.9	0.39		\$ 88.6	0.36

Notes:

- (1) Average balances do not reflect the impact of reclassifications due to FIN 39-1; average balances do, however, reflect the reclassification of certificates of deposit to investments as described in Note 3 to the audited financial statement in the Bank's 2008 Annual Report filed on Form 10-K.
- (2) The average balance of Federal funds sold, related interest income and average yield calculations may include loans to other FHLBanks and securities sold under agreement to repurchase.
- (3) Investment securities include trading, held-to-maturity and available-for-sale securities. The average balances of held-to-maturity securities and available-for-sale securities are reflected at amortized cost; therefore, the resulting yields do not give effect to changes in fair value or the noncredit component of a previously recognized OTTI reflected in accumulated other comprehensive loss.
- (4) Average balances reflect reclassification of noninterest-earning/noninterest-bearing hedge accounting adjustments to other assets or other liabilities.
- (5) Nonaccrual mortgage loans are included in average balances in determining the average rate. BOB loans are reflected in other assets.
- (6) The noncredit portion of OTTI losses on investment securities is reflected in other assets for purposes of the average balance sheet presentation.

Net interest income was \$75.9 million for second quarter 2009, a decline of \$12.7 million, or 14.3%, from the same year-ago period. Falling interest rates combined with lower volumes drove the decline. Total average interest-earning assets declined \$21.1 billion, or 21.4%, to \$77.4 billion for second quarter 2009 compared to \$98.5 billion for the same year-ago period. Lower demand for loans to members was the primary driver of this decline. Total average loans to members were \$47.3 billion for the second quarter 2009 compared to \$68.3 billion for the same year-ago period. The demand for loans to members has declined as the economy continued to slow and alternative sources of liquidity have become available to members via various new government programs and initiatives.

Although net interest income declined quarter-over-quarter, the net interest spread and net interest margin both improved in the comparison. The overall yield on interest-earning assets declined 125 basis points to 2.01%; however the overall rate paid on interest-bearing liabilities declined 131 basis points to 1.71%, resulting in a 6 basis point improvement in the net interest spread. The net interest margin increased 3 basis points, to 0.39%, from second quarter 2008 to second quarter 2009. The improvement in net interest margin was due to the relatively lower rates paid on interest-bearing liabilities. This decrease was due to the replacement of long-term maturing debt with lower-cost funding, resulting in lower interest expense and a wider spread earned on the mortgage loans portfolio. A portion of the portfolio was funded with short-term debt, mostly discount notes, the rates on which have benefited in the financial crisis. The rates paid on the Bank's discount notes have fallen significantly in the quarter-over-quarter comparison, down to 0.22% for the second quarter 2009 from 2.30% for the same year-ago period. This benefit was partially offset by lower yields on noninterest-bearing funds (capital stock) which are typically invested in short-term assets. During second quarter 2008, the Bank earned 2.02% on investments in Federal funds sold. Late in fourth quarter 2008, yields on Federal funds sold declined drastically and the Bank shifted much of its overnight investments to interest-earning FRB accounts. During second quarter 2009, the Bank earned approximately 0.25% on this type of investment, which is in interest-earning deposits in the table above. Beginning in July 2009, the FRB no longer pays interest on these excess balances it holds on the Bank's behalf. The Bank is exploring other alternative opportunities for its noninterest-bearing funds. Additional details and analysis regarding the shift in the mix of these categories is included in the Rate/Volume Analysis discussion below.

Average Balances, Interest Income/Expense and Yields/Rates Paid

	Six Months Ended June 30,					
	2009			2008		
(dollars in millions)	Average Balance ⁽¹⁾	Interest Income/ Expense	Avg. Yield/ Rate (%)	Average Balance ⁽¹⁾	Interest Income/ Expense	Avg. Yield/ Rate (%)
Assets						
Federal funds sold ⁽²⁾	\$ 64.4	\$ 0.1	0.17	\$ 4,089.2	\$ 53.1	2.61
Interest-earning deposits	8,839.8	10.8	0.25	463.4	6.1	2.66
Investment securities ⁽³⁾	15,636.3	296.7	3.83	19,630.8	441.1	4.52
Loans to members ⁽⁴⁾	50,735.8	411.6	1.64	69,380.5	1,212.3	3.51
Mortgage loans held for portfolio ⁽⁵⁾	5,936.7	147.2	5.00	6,125.4	157.3	5.16
Total interest-earning assets	81,213.0	866.4	2.15	99,689.3	1,869.9	3.77
Allowance for credit losses	(14.6)			(8.5)		
Other assets ⁽⁴⁾⁽⁵⁾⁽⁶⁾	2,503.7			2,578.0		
Total assets	\$83,702.1			\$ 102,258.8		
Liabilities and capital						
Deposits	\$ 1,789.1	\$ 0.8	0.09	\$ 2,032.9	\$ 25.3	2.51
Consolidated obligation discount notes	16,858.0	33.6	0.40	30,755.9	452.4	2.96
Consolidated obligation bonds ⁽⁴⁾	58,292.7	699.7	2.42	63,048.4	1,213.7	3.87
Other borrowings	7.3	-	0.94	5.5	0.2	5.21
Total interest-bearing liabilities	76,947.1	734.1	1.92	95,842.7	1,691.6	3.55
Other liabilities ⁽⁴⁾	2,732.5			2,030.9		
Total capital	4,022.5			4,385.2		
Total liabilities and capital	\$83,702.1			\$ 102,258.8		
Net interest spread			0.23			0.22
Impact of noninterest-bearing funds			0.10			0.14
Net interest income/ net interest margin		\$ 132.3	0.33		\$ 178.3	0.36

Notes:

- (1) Average balances do not reflect the impact of reclassifications due to FIN 39-1; average balances do, however, reflect the reclassification of certificates of deposit to investments as described in Note 3 to the audited financial statement in the Bank's 2008 Annual Report filed on Form 10-K.
- (2) The average balance of Federal funds sold, related interest income and average yield calculations may include loans to other FHLBanks and securities sold under agreement to repurchase.
- (3) Investment securities include trading, held-to-maturity and available-for-sale securities. The average balances of held-to-maturity securities and available-for-sale securities are reflected at amortized cost; therefore, the resulting yields do not give effect to changes in fair value or the noncredit component of a previously recognized OTTI reflected in accumulated other comprehensive loss.
- (4) Average balances reflect reclassification of noninterest-earning/noninterest-bearing hedge accounting adjustments to other assets or other liabilities.
- (5) Nonaccrual mortgage loans are included in average balances in determining the average rate. BOB loans are reflected in other assets.
- (6) The noncredit portion of OTTI losses on investment securities is reflected in other assets for purposes of the average balance sheet presentation.

Net interest income was \$132.3 million for the six months ended June 30, 2009, a decline of \$46.0 million, or 25.8%, from the same year-ago period. Falling interest rates combined with lower volumes were the drivers of this decline. Total average interest-earning assets declined \$18.5 billion, or 18.5%, to \$81.2 billion for the six months ended June 30, 2009 compared to \$99.7 billion for the same year-ago period. Lower demand for loans to members was the primary driver of this decline. Total average loans to members were \$50.7 billion for the six months ended June 30, 2009, compared to \$69.4 billion for the same year-ago period. The demand for loans to members declined

as the economy continued to slow and alternative sources of liquidity became available to members from various new government programs and initiatives.

Net interest margin declined 3 basis points to 0.33% compared to 0.36% a year ago. The decline was primarily a result of lower yields on noninterest-bearing funds (capital stock) which are typically invested in short-term assets. During the six months ended June 30, 2008 the Bank generally invested its noninterest-bearing funds in Federal funds sold which earned 261 basis points on average balances. In comparison, due to the drastic decline in yields on Federal funds sold, the Bank shifted virtually all of its investments in Federal funds sold to interest-earning FRB accounts which earned a 25 basis point yield for the six months ended June 30, 2009. Beginning in July 2009, the FRB no longer pays interest on these excess balances that it holds on the Bank's behalf. The Bank is exploring other alternative opportunities for its noninterest-bearing funds. Partially offsetting this unfavorable impact was the wider spread earned on the mortgage portfolio. Yields on the MBS and mortgage loan portfolios have remained relatively flat year-over-year as prepayments have been slow on these assets and additional purchases have been minor. However, a portion of this portfolio was funded with short-term debt, mostly discount notes, the rates on which have benefited in the current financial crisis. The rates paid on the Bank's discount notes have fallen significantly in the year-over-year comparison, down to 0.40% for the six months ended June 30, 2009 from 2.96% for the same year-ago period. Additional details and analysis regarding the shift in the mix of these categories is included in the Rate/Volume Analysis discussion below.

Rate/Volume Analysis. Changes in both volume and interest rates influence changes in net interest income and net interest margin. The following table summarizes changes in interest income and interest expense between 2009 and 2008.

(in millions)	Increase (Decrease) in Interest Income/Expense Due to Changes in Rate/Volume					
	Three Months Ended June 30			Six Months Ended June 30		
	Volume	Rate	Total	Volume	Rate	Total
Federal funds sold	\$ (4.5)	\$ (15.5)	\$ (20.0)	\$ (10.5)	\$ (42.5)	\$ (53.0)
Interest-earning deposits	0.7	2.1	2.8	1.0	3.7	4.7
Investment securities	(40.3)	(25.4)	(65.7)	(86.8)	(57.6)	(144.4)
Loans to members	(112.0)	(208.4)	(320.4)	(241.6)	(559.1)	(800.7)
Mortgage loans held for portfolio	(6.3)	(1.3)	(7.6)	(8.9)	(1.2)	(10.1)
Other ⁽¹⁾	(7.0)	7.0	-	(4.0)	4.0	-
Total interest-earning assets	(169.4)	(241.5)	(410.9)	(350.8)	(652.7)	(1,003.5)
Interest-bearing deposits	(2.2)	(7.4)	(9.6)	(5.0)	(19.5)	(24.5)
Consolidated obligation discount notes	(36.1)	(112.2)	(148.3)	(93.7)	(325.1)	(418.8)
Consolidated obligation bonds	(109.8)	(130.4)	(240.2)	(205.2)	(308.8)	(514.0)
Other borrowings	-	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Other ⁽¹⁾	(12.1)	12.1	-	(33.3)	33.3	-
Total interest-bearing liabilities	(160.2)	(238.0)	(398.2)	(337.3)	(620.2)	(957.5)
Total increase (decrease) in net interest income	\$ (9.2)	\$ (3.5)	\$ (12.7)	\$ (13.5)	\$ (32.5)	\$ (46.0)

Note:

⁽¹⁾ Total interest income/expense rate and volume amounts are calculated values. The difference between the weighted average total amounts and the individual balance sheet components is reported in other above.

Net interest income decreased \$12.7 million from second quarter 2008 to second quarter 2009, driven by both volume of and rates on interest-earning assets and interest-bearing liabilities. Total interest income decreased \$410.9 million in the quarter-over-quarter comparison. This decline included a decrease of \$241.5 million due to rate and \$169.4 million due to volume, both driven primarily by the loans to members portfolio. Total interest expense decreased \$398.2 million in the same comparison, including a rate impact of \$238.0 million and a volume impact of \$160.2 million, both due to the consolidated obligation bonds and discount notes portfolios, which are discussed in more detail below.

For the six months ended June 30, 2009, net interest income decreased \$46.0 million, also driven by both volume of and rates on interest-earning assets and interest-bearing liabilities. Total interest income decreased \$1.0 billion in the year-over-year comparison, including \$652.7 million due to rate and \$350.8 due to volume, both primarily related to the loans to members portfolio. Total interest expense decreased \$957.5 million in the same comparison, including \$620.2 million driven by rate and \$337.3 million driven by volume. Both decreases were related to the impact of the consolidated obligation bonds and discount notes portfolios, which are discussed in more detail below.

Federal funds sold decreased \$3.9 billion from second quarter 2008 to second quarter 2009 and were replaced with interest-earning deposits at the FRB due to the more favorable rates offered. Interest-earning deposits increased \$7.6 billion; however, interest income on the portfolio only increased \$2.8 million in the quarter-over-quarter comparison. The significant increase in volume was offset by the 191 basis point decline in yield. For the six months ended June 30, 2009, Federal funds sold decreased \$4.0 billion from the same prior year period, again a result of a shift to interest-earning deposits due to favorable rates paid on FRB balances. Interest-earning deposits increased \$8.4 billion, although related interest income only increased \$4.7 million. The decrease in the yield on interest-earning deposits in both the quarter-over-quarter and year-over-year comparisons reflects the significant downward change in overall short-term rates, as evidenced in the interest rate trend presentation in the “Current Financial and Mortgage Market Events and Trends” discussion in this Item 2. Management’s Discussion and Analysis in this report filed on Form 10-Q. The net \$3.7 billion and \$4.4 billion increases in balances between these two categories in the quarter-over-quarter and year-over-year comparisons, respectively, reflect the Bank’s continued strategy in part to maintain a strong liquidity position in short-term investments in order to meet members’ loan demand under conditions of market stress and to maintain adequate liquidity in accordance with Finance Agency guidance and Bank policies.

The decrease in the second quarter 2009 average investment securities portfolio balance compared to second quarter 2008 was \$3.5 billion, or 17.7%; correspondingly, the interest income on this portfolio decreased \$65.7 million, driven primarily by volume. Additionally, yields fell 72 basis points, which also contributed to the decline. The average investment securities portfolio balance for the six months ended June 30, 2009 decreased \$4.0 billion, or 20.3% from the same prior year period. In the same year-over-year comparison, interest income decreased \$144.4 million, driven by a decrease in volume and a 69 basis point decline in yields. As rates fell, the corresponding yield on money market investments was down significantly quarter-over-quarter and year-over-year, accounting for the overall decline in yield on investments. The investment securities portfolio includes trading, available-for-sale and held-to-maturity securities, the majority of which are held-to-maturity. The decrease in investments quarter-over-quarter was due to declining certificates of deposit balances and run-off of the held-to-maturity MBS portfolio as well as credit-related OTTI recorded on certain private label MBS. The Bank has been cautious toward investments linked to the U.S. housing market, including MBS. The Bank purchased only \$200 million and \$475 million of agency MBS in the three and six months ended June 30, 2009, respectively.

The average loans to members portfolio decreased significantly from second quarter 2008 to second quarter 2009, declining \$21.1 billion, or 30.8%, in the comparison. This decline in volume, coupled with a 145 basis point decrease in the yield, resulted in a \$320.4 million decline in interest income on this portfolio quarter-over-quarter. For the six months ended June 30, 2009, the average loans to members portfolio declined \$18.6 billion, or 26.9%, over the same prior year period. This volume decrease, as well as a 187 basis point decline in the yield on the portfolio, resulted in an \$800.7 million decline in interest income year-over-year. During the second half of 2007 and continuing into the first half of 2008, the Bank experienced unprecedented growth in the loans to members portfolio due to instability in the credit market, which resulted in increased demand from members for liquidity. This demand leveled off in the second and third quarter of 2008. Loan demand began to decline in the fourth quarter of 2008 and continued into the first six months of 2009, as members grew core deposits and gained access to additional liquidity from the FRB and other government programs that only became available in the second half of 2008. The interest income on this portfolio was significantly impacted by the decline in short-term rates, the decrease of which is presented in the interest rate trend presentation in the “Current Financial and Mortgage Market Events and Trends” discussion in this Item 2. Management’s Discussion and Analysis in this report filed on Form 10-Q. Specific mix changes within the portfolio are discussed more fully below under “Loans to Members Portfolio Detail.”

The mortgage loans held for portfolio balance declined in the comparison, decreasing \$290.9 million, or 4.8%, from second quarter 2008 to second quarter 2009. The related interest income on this portfolio declined \$7.6 million quarter-over-quarter. For the six months ended June 30, 2009, the mortgage loans held for portfolio balance decreased \$188.7 million, or 3.1%, from the same prior year period. The corresponding interest income declined \$10.1 million in the same comparison. The volume of mortgages purchased from members was steady from quarter-to-quarter, but was outpaced by acceleration in the run-off of the existing portfolio. The decline in interest income was due almost entirely to a lower average portfolio balance.

Interest-bearing deposits decreased \$195.6 million, or 9.6%, from second quarter 2008 to second quarter 2009, with a corresponding decrease in interest expense of \$9.6 million, driven primarily by the 189 basis point decline in rates paid. For the six months ended June 30, 2009, interest-bearing deposits decreased \$243.8 million, or 12.0%, from the same prior year period. Interest expense on interest-bearing deposits decreased \$24.5 million in the year-over-year comparison driven by a 242 basis point decline in rates paid. Average interest-bearing deposit balances fluctuate periodically and are driven by member activity.

The consolidated obligations portfolio balance decreased in both the quarter-over-quarter and year-over-year comparisons. The second quarter 2009 discount notes average balance decreased \$11.6 billion, or 42.3%, compared to the second quarter 2008 average balance, while the average bonds balance for second quarter 2009 decreased \$9.7 billion, or 14.9%, compared to second quarter 2008. For the six months ended June 30, 2009, average discount notes decreased \$13.9 billion, or 45.2%, compared to the same prior year period, while average bonds decreased \$4.8 billion, or 7.5%, in the same comparison. These declines in discount notes were consistent with the decline in short-term loan demand from members as noted above. Interest expense on discount notes decreased \$148.3 million from second quarter 2008 to second quarter 2009. For the six months ended June 30, 2009, interest expense on discount notes decreased \$418.8 million from the same year-ago period. These decreases were partially attributable to the volume decline, but primarily due to the 208 and 256 basis point declines in rates paid in the quarter-over-quarter and year-over-year, respectively. The declines in rates paid were consistent with the general decline in short-term rates as previously mentioned. Interest expense on bonds decreased \$240.2 million quarter-over-quarter and \$514.0 million year-over-year. The decreases in rates paid on bonds of 115 and 145 basis points, respectively, were responsible for the majority of the declines. A portion of the bond portfolio is swapped to 3-month LIBOR; therefore, as the LIBOR rate (decreases) increases, interest expense on swapped bonds, including the impact of swaps, (decreases) increases. Market conditions continued to impact spreads on the Bank's consolidated obligations. Bond spreads were volatile in the beginning of 2009 and the Bank had experienced some obstacles in attempting to issue longer-term debt as investors had been reluctant to buy longer-term GSE obligations. However, investor demand for shorter-term GSE debt was strong in the first six months of 2009 and the Bank continued to be able to issue discount notes at attractive rates as needed. The Bank has also experienced an increase in demand for debt with maturities ranging from one to three years during the second quarter of 2009. See details regarding the impact of swaps on the quarterly rates paid in the "Net Interest Income Derivatives Effects" discussion below.

For additional information, see the Liquidity and Funding Risk discussion in "Risk Management" in this Item 2. Management's Discussion and Analysis in this report filed on Form 10-Q.

Average Loans to Members Portfolio Detail

(in millions) Product	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
RepoPlus	\$ 2,069.0	\$ 7,975.8	\$ 2,745.2	\$ 9,834.7
Mid-Term RepoPlus	21,286.5	34,726.7	23,196.4	34,348.2
Term Loans	13,528.4	12,792.7	14,032.3	12,133.7
Convertible Select	7,314.8	9,458.3	7,350.1	9,420.3
Hedge Select	113.0	160.0	131.4	160.0
Returnable	2,924.6	3,232.8	3,236.4	3,484.5
Total par value	\$ 47,236.3	\$ 68,346.3	\$ 50,691.8	\$ 69,381.4

The par value of the Bank's average loans to member portfolio decreased 30.9% in second quarter 2009 from second quarter 2008 and 26.9% in the six months ended June 30, 2009 from the same prior year period. The most significant percentage decrease in both the quarter-over-quarter and year-over-year comparisons was in the RepoPlus product, which decreased \$5.9 billion, or 74.1%, and \$7.1 billion, or 72.1%, respectively. The most significant dollar decrease in both comparisons was in the Mid-Term RepoPlus product which decreased \$13.4 billion, or 38.7%, and \$11.2 billion, or 32.5%, respectively.

Average balances for the RepoPlus and Mid-Term RepoPlus products decreased in 2009 as members gained access to additional liquidity from the FRBs and other government programs that became available in the second half of 2008. Members have also taken other actions during the credit crisis, such as raising core deposits and reducing the size of their balance sheets. The majority of the decline was driven by decreases in average loans to members of the Bank's larger borrowers, with five banks reducing their total average loans outstanding by more than \$14.6 billion.

Increases in Term Loans in both the quarter-over-quarter and year-over-year comparisons were primarily driven by a decline in interest rates; members elected to lock in lower rates on longer-term funding when possible. In addition, certain members had funding needs for term liquidity.

As of June 30, 2009, 35.2% of the par value of loans in the portfolio had a remaining maturity of one year or less, compared to 37.0% at December 31, 2008. Details of the portfolio components are included in Note 6 to the unaudited financial statements in this report filed on Form 10-Q.

The ability to grow the loans to members portfolio may be affected by, among other things, the following: (1) the liquidity demands of the Bank's borrowers; (2) the composition of the Bank's membership itself; (3) the Bank's liquidity position and how management chooses to fund the Bank; (4) current, as well as future, credit market conditions and the Bank's pricing levels on loans to members; (5) member reaction to the Bank's voluntary decision to suspend dividend payments and excess capital stock repurchases until further notice; (6) actions of the U.S. government which have created additional competition; (7) housing market trends; and (8) the shape of the yield curve.

During 2008, the Federal Reserve took a series of unprecedented actions that have made it more attractive for eligible financial institutions to borrow directly from the FRBs, creating increased competition for the Bank. See the "Legislative and Regulatory Actions" discussion in Item 7. Management's Discussion and Analysis in the Bank's 2008 Annual Report filed on Form 10-K for additional information regarding these government actions.

The Bank accepts various forms of collateral including, but not limited to, AAA-rated investment securities and residential mortgage loans. In light of recent market conditions, the Bank recognizes that there is the potential for an increase in the credit risk of the portfolio. However, the Bank continues to monitor its collateral position and the related policies and procedures, to help ensure adequate collateral coverage. The Bank believes it was fully secured as of June 30, 2009. For more information on collateral, see the "Loan Products" discussion in "Overview" and the Credit and Counterparty Risk discussion in "Risk Management" in this Item 2. Management's Discussion and Analysis, both in this report filed on Form 10-Q.

Net Interest Income Derivative Effects. The following tables separately quantify the effects of the Bank's derivative activities on its interest income and interest expense for the three and six months ended June 30, 2009 and 2008. Derivative and hedging activities are discussed below in the "Other Income (Loss)" section.

Three Months Ended June 30, 2009

(dollars in millions)	Average Balance	Interest Inc./ Exp. with Derivatives	Avg. Yield/ Rate (%)	Interest Inc./ Exp. without Derivatives	Avg. Yield/ Rate (%)	Impact of Derivatives ⁽¹⁾	Incr./ (Decr.) (%)
Assets:							
Loans to members	\$ 47,277.1	\$ 169.9	1.44	\$ 456.5	3.87	\$ (286.6)	(2.43)
Mortgage loans held for portfolio	5,790.2	70.3	4.87	71.7	4.97	(1.4)	(0.10)
All other interest-earning assets	24,380.9	148.4	2.44	148.4	2.44	-	-
Total interest-earning assets	\$ 77,448.2	\$ 388.6	2.01	\$ 676.6	3.50	\$ (288.0)	(1.49)
Liabilities and capital:							
Consolidated obligation bonds	\$ 55,465.2	\$ 303.5	2.20	\$ 401.9	2.91	\$ (98.4)	(0.71)
All other interest-bearing liabilities	17,701.1	9.2	0.21	9.2	0.21	-	-
Total interest-bearing liabilities	\$ 73,166.3	\$ 312.7	1.71	\$ 411.1	2.25	\$ (98.4)	(0.54)
Net interest income/net interest spread		\$ 75.9	0.30	\$ 265.5	1.25	\$ (189.6)	(0.95)

Note:

(1) Impact of Derivatives includes net interest settlements and amortization of basis adjustments resulting from previously terminated hedging relationships.

Three Months Ended June 30, 2008

(dollars in millions)	Average Balance	Interest Inc./ Exp. with Derivatives	Avg. Yield/ Rate (%)	Interest Inc./ Exp. without Derivatives	Avg. Yield/ Rate (%)	Impact of Derivatives ⁽¹⁾	Incr./ (Decr.) (%)
Assets:							
Loans to members	\$ 68,345.4	\$ 490.3	2.89	\$ 677.7	3.99	\$ (187.4)	(1.10)
Mortgage loans held for portfolio	6,081.1	77.9	5.15	78.8	5.20	(0.9)	(0.05)
All other interest-earning assets	24,114.0	231.3	3.86	231.3	3.86	-	-
Total interest-earning assets	\$ 98,540.5	\$ 799.5	3.26	\$ 987.8	4.03	\$ (188.3)	(0.77)
Liabilities and capital:							
Consolidated obligation bonds	\$ 65,181.5	\$ 543.7	3.35	\$ 651.7	4.02	\$ (108.0)	(0.67)
All other interest-bearing liabilities	29,524.0	167.2	2.28	167.2	2.28	-	-
Total interest-bearing liabilities	\$ 94,705.5	\$ 710.9	3.02	\$ 818.9	3.48	\$ (108.0)	(0.46)
Net interest income/net interest spread		\$ 88.6	0.24	\$ 168.9	0.55	\$ (80.3)	(0.31)

Note:

(1) Impact of Derivatives includes net interest settlements and amortization of basis adjustments resulting from previously terminated hedging relationships.

Six Months Ended

June 30, 2009

(dollars in millions)	Average Balance	Interest Inc./ Exp. with Derivatives	Avg. Yield/ Rate (%)	Interest Inc./ Exp. without Derivatives	Avg. Yield/ Rate (%)	Impact of Derivatives ⁽¹⁾	Incr./ (Decr.) (%)
Assets:							
Loans to members	\$ 50,735.8	\$ 411.6	1.64	\$ 955.6	3.80	\$ (544.0)	(2.16)
Mortgage loans held for portfolio	5,936.7	147.2	5.00	149.4	5.07	(2.2)	(0.07)
All other interest-earning assets	24,540.5	307.6	2.53	307.6	2.53	-	-
Total interest-earning assets	\$ 81,213.0	\$ 866.4	2.15	\$ 1,412.6	3.51	\$ (546.2)	(1.36)
Liabilities and capital:							
Consolidated obligation bonds	\$ 58,292.7	\$ 699.7	2.42	\$ 902.5	3.12	\$ (202.8)	(0.70)
All other interest-bearing liabilities	18,654.4	34.4	0.37	34.4	0.37	-	-
Total interest-bearing liabilities	\$ 76,947.1	\$ 734.1	1.92	\$ 936.9	2.46	\$ (202.8)	(0.54)
Net interest income/net interest spread		\$ 132.3	0.23	\$ 475.7	1.05	\$ (343.4)	(0.82)

Note:

(1) Impact of Derivatives includes net interest settlements and amortization of basis adjustments resulting from previously terminated hedging relationships.

Six Months Ended

June 30, 2008

(dollars in millions)	Average Balance	Interest Inc./ Exp. with Derivatives	Avg. Yield/ Rate (%)	Interest Inc./ Exp. without Derivatives	Avg. Yield/ Rate (%)	Impact of Derivatives ⁽¹⁾	Incr./ (Decr.) (%)
Assets:							
Loans to members	\$ 69,380.5	\$ 1,212.3	3.51	\$ 1,450.9	4.21	\$ (238.6)	(0.70)
Mortgage loans held for portfolio	6,125.4	157.3	5.16	158.9	5.22	(1.6)	(0.06)
All other interest-earning assets	24,183.4	500.3	4.16	500.3	4.16	-	-
Total interest-earning assets	\$ 99,689.3	\$ 1,869.9	3.77	\$ 2,110.1	4.26	\$ (240.2)	(0.49)
Liabilities and capital:							
Consolidated obligation bonds	\$ 63,048.4	\$ 1,213.7	3.87	\$ 1,358.6	4.33	\$ (144.9)	(0.46)
All other interest-bearing liabilities	32,794.3	477.9	2.93	477.9	2.93	-	-
Total interest-bearing liabilities	\$ 95,842.7	\$ 1,691.6	3.55	\$ 1,836.5	3.85	\$ (144.9)	(0.30)
Net interest income/net interest spread		\$ 178.3	0.22	\$ 273.6	0.41	\$ (95.3)	(0.19)

Note:

(1) Impact of Derivatives includes net interest settlements and amortization of basis adjustments resulting from previously terminated hedging relationships.

The Bank uses derivatives to hedge the fair market value changes attributable to the change in the LIBOR benchmark interest rate. The hedge strategy generally uses interest rate swaps to hedge a portion of loans to members and consolidated obligation bonds which convert the interest rates on those instruments from a fixed rate to a variable rate based on 3-month LIBOR. The purpose of this strategy is to protect the interest rate spread. Using derivatives to convert interest rates from fixed to variable can increase or decrease net interest income. The variances in the loans to members and consolidated obligation derivative impacts from period to period are driven by the change in average 3-month LIBOR, the timing of interest rate resets and the average hedged portfolio balances outstanding during any given period.

For second quarter 2009, the impact of derivatives decreased net interest income \$189.6 million and reduced the interest rate spread 95 basis points, compared to a reduction to net interest income of \$80.3 million and a reduction to the interest rate spread of 31 basis points for second quarter 2008. This decline was driven by a 191 basis point decrease in average 3-month LIBOR combined with the higher level of hedged loans relative to hedged consolidated obligations. This unfavorable variance was partially offset by the interest rate changes to variable-rate debt.

For the six months ended June 30, 2009, the impact of derivatives decreased net interest income \$343.4 million and reduced the interest rate spread 82 basis points, compared to a decrease in net interest income of \$95.3 million and a reduction to the interest rate spread of 19 basis points for the same prior year period. This decline was driven by a 198 basis point decrease in average 3-month LIBOR combined with the higher level of hedged loans relative to hedged consolidated obligations. This unfavorable variance was partially offset by the interest rate changes to variable-rate debt.

The mortgage loans held for portfolio derivative impact for all periods presented was affected by the amortization of basis adjustments resulting from hedges of commitments to purchase mortgage loans through the MPF program.

Other Income (Loss)

(in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Services fees	\$ 0.6	\$ 0.9	(33.3)	\$ 1.2	\$ 1.9	(36.8)
Net losses on trading securities	(0.3)	-	n/m	(0.3)	(0.3)	-
Net gains (losses) on derivatives and hedging activities	12.4	(0.7)	n/m	11.2	3.7	202.7
Total OTTI losses	(460.2)	-	n/m	(785.0)	-	n/m
Portion of OTTI losses recognized in other comprehensive loss	420.9	-	n/m	715.2	-	n/m
Net OTTI credit losses	(39.3)	-	n/m	(69.8)	-	n/m
Contingency reserve	-	-	-	(35.3)	-	n/m
Other income, net	2.2	1.0	120.0	4.2	1.3	223.1
Total other income (loss)	\$ (24.4)	\$ 1.2	n/m	\$ (88.8)	\$ 6.6	n/m

n/m - not meaningful

Second quarter 2009 financial results included total other losses of \$24.4 million, compared to total other income of \$1.2 million in second quarter 2008. Service fees declined in the year-over-year comparison due to the Bank's transition out of the Coin and Currency business in July 2008. The second quarter 2009 net gains on derivatives and hedging activities totaled \$12.4 million compared to losses of \$0.7 million in second quarter 2008. Net OTTI credit losses for 2009 represented the credit loss portion of the OTTI charges taken on the private label MBS portfolio in second quarter 2009. There were no impairment charges in the same prior year period. Other income, net increased \$1.2 million in the quarter-over-quarter comparison, primarily due to an increase in standby letter of credit fees during second quarter 2009.

Year-to-date June 2009 financial results included total other losses of \$88.8 million, compared to total other income of \$6.6 million for year-to-date June 2008. Service fees declined in the year-over-year comparison due to the Bank's transition out of the Coin and Currency business in July 2008. The year-to-date June 2009 net gains on derivatives and hedging activities totaled \$11.2 million compared to \$3.7 million for the same prior year period. Net OTTI credit losses for 2009 represented the credit loss portion of the OTTI charges taken on the private label MBS portfolio in the first six months of 2009. There were no impairment charges in the same prior year period. The \$35.3 million contingency reserve represents the establishment of a contingency reserve for the Bank's LBSF receivable in first quarter 2009. Other income, net increased \$2.9 million in the year-over-year comparison, primarily due to an increase in standby letter of credit fees during the first six months of 2009.

See additional discussion regarding OTTI charges in "Critical Accounting Policies" in this Item 2. Management's Discussion and Analysis and Note 5 to the unaudited financial statements, both in this report filed on Form 10-Q. See additional discussion regarding the LBSF receivable and reserve in the Current Financial and Mortgage Events and Trends disclosure of the "Overview" section in this Item 2. Management's Discussion and Analysis in this report filed on Form 10-Q. The activity related to net gains (losses) on derivatives and hedging activities is discussed in more detail below.

Derivatives and Hedging Activities. The following table details the net gains and losses on derivatives and hedging activities, including hedge ineffectiveness.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009 Gain (Loss)	2008 Gain (Loss)	2009 Gain (Loss)	2008 Gain (Loss)
(in millions)				
Derivatives and hedged items in SFAS 133 fair value				
hedging relationships				
Loans to members	\$ 10.0	\$ (4.6)	\$ (9.2)	\$ (4.3)
Consolidated obligations	2.1	4.0	19.5	9.7
Total net gain (loss) related to fair value hedge				
ineffectiveness	12.1	(0.6)	10.3	5.4
Derivatives not designated as hedging instruments				
under SFAS 133				
Economic hedges	(1.1)	0.5	(2.5)	(1.4)
Mortgage delivery commitments	1.1	(0.6)	3.0	(0.5)
Intermediary transactions	-	-	-	-
Other	0.3	-	0.4	0.2
Total net gain (loss) related to derivatives not				
designated as hedging instruments under SFAS 133	0.3	(0.1)	0.9	(1.7)
Net gains (losses) on derivatives and hedging activities	\$ 12.4	\$ (0.7)	\$ 11.2	\$ 3.7

Fair Value Hedges. The Bank uses fair value hedge accounting treatment for most of its fixed-rate loans to members and consolidated obligation bonds using interest rate swaps. The interest rate swaps convert these fixed-rate instruments to a variable-rate (i.e., LIBOR). For the second quarter of 2009, total ineffectiveness related to these fair value hedges resulted in a gain of \$12.1 million compared to a loss of \$0.6 million in the second quarter of 2008. For the six months ended June 30, 2009, total ineffectiveness related to fair value hedges resulted in a gain of \$10.3 million compared to a gain of \$5.4 million in the same prior year period. The overall notional amount decreased from \$75.2 billion at June 30, 2008 to \$51.9 billion at June 30, 2009. Fair value hedge ineffectiveness represents the difference between the change in the fair value of the derivative compared to the change in the fair value of the underlying asset/liability hedged. Fair value hedge ineffectiveness is generated by movement in the benchmark interest rate being hedged and by other structural characteristics of the transaction involved. For

example, the presence of an upfront fee associated with a structured debt hedge will introduce valuation differences between the hedge and hedged item that will fluctuate through time.

Economic Hedges. For economic hedges, the Bank includes the net interest income and the changes in the fair value of the hedges in net gain (loss) on derivatives and hedging activities. Total amounts recorded for economic hedges were a loss of \$1.1 million in second quarter 2009 compared to a gain of \$0.5 million in second quarter 2008. For the six months ended June 30, 2009, total amounts recorded on economic hedges resulted in a loss of \$2.5 million compared to a loss of \$1.4 million in the same prior year period. The overall notional amount of economic hedges decreased from \$1.3 billion at June 30, 2008 to \$0.8 billion at June 30, 2009.

Mortgage Delivery Commitments. Certain mortgage purchase commitments are considered derivatives (in accordance with SFAS No. 149). When the mortgage purchase commitment derivative settles, the current market value of the commitment is included with the basis of the mortgage loan and amortized accordingly. Total gains relating to mortgage delivery commitments for the second quarter of 2009 were \$1.1 million compared to total losses of \$0.6 million for the second quarter of 2008 largely due to changing market rates. For the six months ended June 30, 2009, total gains relating to mortgage delivery commitments were \$3.0 million. Net losses relating to mortgage delivery commitments for the same prior year-to-date period were \$0.5 million. Total notional of the Bank's mortgage delivery commitments decreased from \$15.5 million at June 30, 2008 to \$13.3 million at June 30, 2009.

Intermediary Transactions. Derivatives in which the Bank is an intermediary may arise when the Bank enters into derivatives with members and offsetting derivatives with other counterparties to meet the needs of members. Net gains on intermediary activities were not significant for the three and six months ended June 30, 2009 and 2008.

Other Expense

(in millions)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Operating - salaries and benefits	\$ 8.0	\$ 9.2	(13.0)	\$ 16.2	\$ 18.8	(13.8)
Operating - occupancy	0.7	0.8	(12.5)	1.3	1.6	(18.8)
Operating - other	5.2	4.3	20.9	10.1	7.8	29.5
Finance Agency	0.7	0.7	-	1.5	1.5	-
Office of Finance	0.7	0.6	16.7	1.4	1.4	-
Total other expenses	\$ 15.3	\$ 15.6	(1.9)	\$ 30.5	\$ 31.1	(1.9)

Other expense totaled \$15.3 million in the second quarter of 2009, compared to \$15.6 million in the second quarter of 2008, a decrease of \$0.3 million, or 1.9%. Excluding the operating expenses of the Finance Agency and the OF, other expenses decreased \$0.4 million, or 2.8%, quarter-over-quarter, driven by a \$1.2 million decline in salaries and benefits expense. Salaries and benefits expense in second quarter 2008 included a nonrecurring lump sum settlement payment related to the Bank's nonqualified benefit plan. This was partially offset by higher other operating expenses driven primarily by higher professional fees resulting from increased consulting fees and services related in part to the Bank's enhanced OTTI assessment process.

For the six months ended June 30, 2009, other expense totaled \$30.5 million compared to \$31.1 million for the same prior year period, a decrease of \$0.6 million, or 1.9%. Excluding the operating expenses of the Finance Agency and the OF, other expenses decreased \$0.6 million, or 2.1%, year-over-year. Year-to-date 2008 salaries and benefits expense included severance costs as well as the lump sum settlement payment noted above. Other operating expenses increased \$2.3 million, or 29.5%, due to higher consulting fees and services as noted above.

Collectively, the twelve FHLBanks are responsible for the operating expenses of the OF and a portion of the operating expenses of the Finance Agency. These payments, allocated among the FHLBanks according to a cost-sharing formula, are reported as other expense on the Bank's Statement of Operations and totaled \$1.4 million and \$1.3 million for the three months ended June 30, 2009 and 2008, respectively. For both the six months ended

June 30, 2009 and 2008, these expenses totaled \$2.9 million. The Bank has no control over the operating expenses of the Finance Agency. The FHLBanks are able to exert a limited degree of control over the operating expenses of the OF due to the fact that two directors of the OF are also FHLBank presidents.

Affordable Housing Program (AHP) and Resolution Funding Corp. (REFCORP) Assessments

(in ;millions)	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Affordable Housing Program (AHP)	\$ 0.9	5.9	(84.7)	\$ 0.9	\$ 12.3	(92.7)
REFCORP	2.1	13.2	(84.1)	2.1	27.6	(92.4)
Total assessments	\$ 3.0	\$ 19.1	(84.3)	\$ 3.0	\$ 39.9	(92.5)

Assessment Calculations. Although the FHLBanks are not subject to federal or state income taxes, the combined financial obligations of making payments to REFCORP (20%) and AHP contributions (10%) equate to a proportion of the Bank's net income comparable to that paid in income tax by fully taxable entities. Inasmuch as both the REFCORP and AHP payments are each separately subtracted from earnings prior to the assessment of each, the combined effective rate is less than the simple sum of both (i.e., less than 30%). In passing the Financial Services Modernization Act of 1999, Congress established a fixed 20% annual REFCORP payment rate beginning in 2000 for each FHLBank. The fixed percentage replaced a fixed-dollar annual payment of \$300 million which had previously been divided among the twelve FHLBanks through a complex allocation formula. The law also calls for an adjustment to be made to the total number of REFCORP payments due in future years so that, on a present value basis, the combined REFCORP payments of all twelve FHLBanks are equal in amount to what had been required under the previous calculation method. The FHLBanks' aggregate payments through the second quarter of 2009 exceeded the scheduled payments, effectively accelerating payment of the REFCORP obligation and shortening its remaining term to a final payment during the second quarter of 2012. This date assumes that the FHLBanks pay exactly \$300 million annually until 2012. The cumulative amount to be paid to REFCORP by the FHLBank is not determinable at this time due to the interrelationships of the future earnings of all FHLBanks and interest rates.

Application of the REFCORP percentage rate as applied to earnings during the three and six months ended June 30, 2009 resulted in expense for the Bank of \$2.1 million. Due to the pre-assessment loss incurred by the Bank in the first quarter of 2009, the Bank did not record any REFCORP or AHP expense for that period. For the three and six months ended June 30, 2008, the Bank incurred REFCORP expense of \$13.2 million and \$27.6 million, respectively. The Bank does not receive an assessment "benefit" on REFCORP and AHP assessments during annual reporting periods in which a loss is incurred.

For full year 2008, the Bank overpaid its 2008 REFCORP assessment as a result of the loss recognized in fourth quarter 2008. As instructed by the U.S. Treasury, the Bank is using its overpayment as a credit against future REFCORP assessments (to the extent the Bank has positive net income in the future) over an indefinite period of time. This overpayment is recorded as a prepaid asset by the Bank and reported as "prepaid REFCORP assessment" on the Statement of Condition. Over time, as the Bank uses this credit against its future REFCORP assessments, the prepaid asset will be reduced until it has been exhausted. The Bank used \$2.1 million of this prepaid asset in the second quarter of 2009. If any amount of the prepaid asset still remains at the time that the REFCORP obligation for the FHLBank System as a whole is fully satisfied, REFCORP, in consultation with the U.S. Treasury, will implement a procedure so that the Bank would be able to collect on its remaining prepaid asset. The Bank's prepaid REFCORP assessment balance at June 30, 2009 was \$37.5 million.

Financial Condition

The following is Management's Discussion and Analysis of the Bank's financial condition at June 30, 2009 compared to December 31, 2008. This should be read in conjunction with the Bank's unaudited interim financial statements and notes in this report and the audited financial statements in the Bank's 2008 Annual Report filed on Form 10-K.

Asset Composition. As a result of declining loan demand by members, the Bank's total assets decreased \$14.4 billion, or 15.9%, to \$76.4 billion at June 30, 2009, down from \$90.8 billion at December 31, 2008. Loans to members decreased \$16.4 billion. This decrease was partially offset by a net \$3.6 billion increase in total interest-earning deposits.

Total housing finance-related assets, which include MPF Program loans, loans to members, mortgage-backed securities and other mission-related investments, decreased \$18.6 billion, or 23.4%, to \$61.0 billion at June 30, 2009, down from \$79.6 billion at December 31, 2008. Total housing finance-related assets accounted for 79.9% of assets as of June 30, 2009 and 87.7% of assets as of December 31, 2008.

Loans to Members. At June 30, 2009, total loans to members reflected balances of \$45.8 billion to 230 borrowing members, compared to \$62.2 billion of loans to 249 borrowing members at year-end 2008, a 26.4% decrease in the portfolio balance. A significant concentration of the loans continued to be generated from the Bank's five largest borrowers, generally reflecting the asset concentration mix of the Bank's membership base. Total loans outstanding to the Bank's five largest members were \$28.2 billion and \$37.6 billion at June 30, 2009 and December 31, 2008, respectively.

The following table provides a distribution of the number of members, categorized by individual member asset size, that had an outstanding average balance during the six months ended June 30, 2009 and the year ended December 31, 2008.

Member Asset Size	2009	2008
Less than \$100 million	41	51
Between \$100 million and \$500 million	131	142
Between \$500 million and \$1 billion	37	39
Between \$1 billion and \$5 billion	30	26
Greater than \$5 billion	16	16
Total borrowing members during the year	255	274
Total membership	319	323
Percent of members borrowing during the period	79.9%	84.8%
Total borrowing members with outstanding loan balances at period-end	230	249
Percent of member borrowing at period-end	72.1%	77.1%

As of June 30, 2009, the par value of the combined mid-term (Mid-Term RepoPlus) and short-term (RepoPlus) products decreased \$11.4 billion, or 34.0%, to \$22.1 billion, compared to \$33.5 billion at December 31, 2008. These products represented 50.1% and 56.3% of the par value of the Bank's total loans to members portfolio at June 30, 2009 and December 31, 2008, respectively. The Bank's shorter-term loans to members decreased as a result of members' having less need for liquidity from the Bank as they have taken actions during the credit crisis, such as raising core deposits, reducing their balance sheets, and identifying alternative sources of funds. Also, many of the Bank's members have reacted to the Bank's temporary actions of not paying dividends and not repurchasing capital stock by limiting their use of the Bank's loans to members products. As well, the recession has decreased the Bank's members' need for funding from the Bank. The short-term portion of the loans to members portfolio is volatile; as market conditions change rapidly, the short-term nature of these lending products could materially impact the Bank's outstanding loan balance. See Item 1. Business in the Bank's 2008 Annual Report filed on Form 10-K for details regarding the Bank's various loan products.

The Bank's longer-term loans to members, referred to as Term Loans, decreased \$1.9 billion, or 12.8%, to \$13.0 billion at June 30, 2009 down from \$14.9 billion at December 31, 2008. These balances represented 29.4% and 25.0% of the Bank's loans to members portfolio at June 30, 2009 and December 31, 2008, respectively. The Bank's longer-term loans have remained relatively constant as the loans to members continue to represent a good value for the Bank's members based on the interest rate. A number of the Bank's members have a high percentage of long-term mortgage assets on their balance sheets; these members generally fund these assets through these longer-term borrowings with the Bank to mitigate interest rate risk. Meeting the needs of such members has been, and will continue to be, an important part of the Bank's loans to members business.

As of June 30, 2009, the Bank's longer-term option embedded loans to members decreased \$2.1 billion to \$9.0 billion as of June 30, 2009 from \$11.1 billion as of December 31, 2008. These products represented 20.5% and 18.7% of the Bank's loans to members portfolio on June 30, 2009 and December 31, 2008, respectively.

Mortgage Loans Held for Portfolio. Net mortgage loans held for portfolio decreased 9.1% to \$5.6 billion as of June 30, 2009, compared to \$6.2 billion at December 31, 2008. This decrease was primarily due to the continued run-off of the portfolio, due primarily to paydowns resulting from an increase in refinancings in the low interest rate environment. This run-off more than offset the new funding activity.

Loan Portfolio Analysis. The Bank's outstanding loans, nonaccrual loans and loans 90 days or more past due and accruing interest are as presented in the following table.

(in millions)	June 30, 2009	December 31, 2008
Loans to members ⁽¹⁾	\$ 45,799.6	\$ 62,153.4
Mortgage loans held for portfolio, net ⁽²⁾	5,607.5	6,165.3
Nonaccrual mortgage loans, net ⁽³⁾	59.6	38.3
Mortgage loans past due 90 days or more and still accruing interest ⁽⁴⁾	15.2	12.6
BOB loans, net ⁽⁵⁾	11.4	11.4

Notes:

- (1) There are no loans to members balances which are past due or on nonaccrual status.
- (2) All of the real estate mortgages held in portfolio by the Bank are fixed-rate. Balances are reflected net of allowance for credit losses.
- (3) All nonaccrual mortgage loans are reported net of interest applied to principal.
- (4) Government-insured or -guaranteed loans (e.g., FHA, VA, HUD or RHS) continue to accrue interest after becoming 90 days or more delinquent.
- (5) Due to the nature of the program, all BOB loans are considered nonaccrual loans. Balances are reflected net of allowance for credit losses.

The Bank has experienced an increase in its nonaccrual mortgage loans held for portfolio. Nonaccrual mortgage loans increased approximately \$21.3 million, or 55.6%, from December 31, 2008 to June 30, 2009. This increase was driven by general economic conditions. The Bank increased its allowance for loan losses on these loans from \$4.3 million at December 31, 2008 to \$6.3 million at June 30, 2009.

Interest-Earning Deposits and Federal Funds Sold. At June 30, 2009, these short-term investments totaled \$9.2 billion, a net increase of \$2.8 billion, or 44.2%, from December 31, 2008. These combined balances have continued to grow over the last two years, reflecting the Bank's strategy to continue to increase its short-term liquidity position in part to be able to meet members' loan demand under conditions of market stress and to maintain adequate liquidity in accordance with Finance Agency guidance and Bank policies.

Investment Securities. Investment securities decreased \$163.6 million, or 1.1%, from December 31, 2008 to June 30, 2009, primarily due to a decrease in MBS. The MBS are collateralized and are typically expected to provide a return that exceeds the return on other types of investments. The decrease in MBS was driven primarily by paydowns and/or maturities of principal as well as total OTTI losses recorded against the portfolio. The Bank continues to receive cash payments on all MBS. The increase in trading securities was driven primarily by an increase in Treasury bills and TLGP investments.

On June 30, 2009, the Bank transferred certain private label MBS with an amortized cost of \$2.0 billion from its held-to-maturity portfolio to its available-for-sale portfolio. The securities transferred had OTTI credit losses recognized during the second quarter of 2009. The Bank transferred the securities to the available-for-sale portfolio to increase financial flexibility to sell these securities if management determines it is prudent to do so. The Bank has no current plans to sell these securities nor is the Bank under any requirements to sell the securities. See Note 4 to the unaudited financial statements in this report filed on Form 10-Q for additional information.

Historically, the amount that the Bank can invest in MBS is limited by regulation to 300% of regulatory capital. However, on March 24, 2008, the Finance Agency passed a resolution that authorized a temporary increase in the amount of MBS the FHLBanks are permitted to purchase. This resolution increased the MBS investment limit to

600% of regulatory capital for two years, subject to Board approval and filing of required documentation with the Finance Agency. The Bank will continue to monitor its MBS position and determine the proper portfolio level. At the current time, the Bank does not expect to exceed the original 300% limit.

The following tables summarize key investment securities portfolio statistics.

(in millions)	June 30, 2009	December 31, 2008
<u>Trading securities:</u>		
Mutual funds offsetting deferred compensation	\$ 6.0	\$ 6.2
Treasury bills	678.6	-
Certificates of deposit	-	500.6
TLGP investments	250.1	-
Total trading securities	\$ 934.7	\$ 506.8
<u>Available-for-sale securities:</u>		
Mortgage-backed securities	\$ 1,253.0	\$ 19.7
Total available-for-sale securities	\$ 1,253.0	\$ 19.7
<u>Held-to-maturity securities:</u>		
Certificates of deposit	\$ 4,550.0	\$ 2,700.0
State or local agency obligations	627.5	636.8
U.S. government-sponsored enterprises	188.4	955.0
Mortgage-backed securities	7,727.3	10,626.2
Total held-to-maturity securities	\$ 13,093.2	\$ 14,918.0
Total investment securities	\$ 15,280.9	\$ 15,444.5

As of June 30, 2009, investment securities had the following maturity and yield characteristics.

(dollars in millions)	Carrying Value	Yield
<u>Trading securities:</u>		
Mutual funds offsetting deferred compensation	\$ 6.0	n/a
Treasury bills	678.6	0.38
TLGP investments	250.1	0.62
Total trading securities	\$ 934.7	0.44
<u>Available-for-sale securities:</u>		
Mortgage-backed securities	\$ 1,253.0	5.38
Total available-for-sale securities	\$ 1,253.0	5.38
<u>Held-to-maturity securities:</u>		
Certificates of deposit	\$ 4,550.0	0.69
<u>State or local agency obligations:</u>		
Within one year	56.0	5.86
After one but within five years	78.4	5.73
After five years	493.1	2.92
Total state or local agency obligations	\$ 627.5	3.54
<u>U.S. government-sponsored enterprises:</u>		
Within one year	99.9	0.88
After five years	88.5	4.05
Total U.S. government-sponsored enterprises	188.4	2.37
Mortgage-backed securities	7,727.3	4.30
Total held-to-maturity securities	\$ 13,093.2	3.00
Total investment securities	\$ 15,280.9	3.16

n/a - not applicable

As of June 30, 2009, the Bank's available-for-sale and held-to-maturity portfolios included combined gross unrealized losses of \$2.0 billion related to noncredit loss factors. As of December 31, 2008, the available-for-sale and held-to-maturity securities portfolios included gross unrealized losses of \$2.1 billion, which at that time were considered temporary. The gross unrealized losses on these portfolios resulted from ongoing market volatility, illiquidity in certain market sectors, widening credit spreads and deterioration in credit quality. In conjunction with the adoption of FSP 115-2, the Bank recorded a \$255.9 million cumulative effect adjustment to accumulated other comprehensive loss. This amount represented the noncredit loss portion of OTTI recorded in fourth quarter 2008. In addition, the Bank recorded OTTI charges representing the noncredit portion of impairment, to accumulated other comprehensive loss on its held-to-maturity securities investment portfolio of \$420.9 million and \$715.2 million for the three and six months ended June 30, 2009, respectively. See "Critical Accounting Policies" and "Credit and Counterparty Risk - Investments" in this Item 2. Management's Discussion and Analysis in this report filed on Form 10-Q for additional details.

As of June 30, 2009, the Bank held securities from the following issuers with a book value greater than 10% of Bank total capital.

(in millions)	Total Carrying Value	Total Fair Value
JP Morgan Mortgage Trust	\$ 1,500.9	\$ 1,157.5
Federal Home Loan Mortgage Corp.	1,185.3	1,217.3
Wells Fargo Mortgage Backed Securities Trust	961.1	803.3
U.S. Treasury	678.6	678.6
Government National Mortgage Association	634.2	634.6
Federal National Mortgage Association	567.8	574.0
Structured Adjustable Rate Mortgage Loan Trust	447.7	411.3
Pennsylvania Housing Finance Agency	419.1	403.6
Countrywide Home Loans, Inc.	359.2	329.8
Total	\$ 6,753.9	\$ 6,210.0

For additional information on the credit risk of the investment portfolio, see Credit and Counterparty Risk discussion in this section.

Deposits. At June 30, 2009, time deposits in denominations of \$100 thousand or more totaled \$13.8 million. The table below presents the maturities for time deposits in denominations of \$100 thousand or more.

(in millions)	3 Months or Less	Over 3 Months but Within 6 Months	Over 6 Months but Within 12 Months	Thereafter	Total
By Remaining Maturity at June 30, 2009					
Time certificates of deposit (\$100,000 or more)	\$ 0.0	\$ 2.8	\$ 10.5	\$ 0.5	\$13.8

Commitment and Off-balance Sheet Items. At June 30, 2009, the Bank was obligated to fund approximately \$11.6 million in additional loans to members, \$13.3 million of mortgage loans and \$10.8 billion in outstanding standby letters of credit, and was obligated to issue \$1.5 billion in consolidated obligations. The Bank does not have any off-balance sheet special purpose entities or any other type of off-balance sheet conduits.

Retained Earnings. The Finance Agency has issued regulatory guidance to the FHLBanks relating to capital management and retained earnings. The guidance directs each FHLBank to assess, at least annually, the adequacy of its retained earnings with consideration given to future possible financial and economic scenarios. The guidance also outlines the considerations that each FHLBank should undertake in assessing the adequacy of its retained earnings.

(in millions)	Six Months Ended June 30,	
	2009	2008
Balance, beginning of the year	\$ 170.5	\$ 296.3
Cumulative effect of adoption of FSP 115-2	255.9	-
Net income	8.5	110.5
Dividends	-	(86.4)
Balance, end of the quarter	\$ 434.9	\$ 320.4
Payout ratio (dividends/net income)	n/a	78.2%

n/a - not applicable

At June 30, 2009, retained earnings were \$434.9 million, representing an increase of \$264.4 million, or 155.1%, from December 31, 2008. The Bank adopted FSP 115-2 effective January 1, 2009. This adoption resulted in a \$255.9 million increase in retained earnings due to the cumulative effect adjustment recorded as of January 1,

2009. This cumulative effect adjustment did not impact the Bank's REFCORP or AHP assessment expenses or liabilities, as these assessments are based on GAAP net income.

Additional information regarding FSP 115-2 is available in the "Critical Accounting Policies" discussion in this Item 2. Management's Discussion and Analysis and Note 2 to the unaudited financial statements, both in this report filed on Form 10-Q. Further details of the components of required risk-based capital are presented in the "Capital Resources" discussion in Management's Discussion and Analysis in this report filed on Form 10-Q. See Note 10 to the unaudited financial statements in this report filed on Form 10-Q for further discussion of accumulated other comprehensive loss, risk-based capital and the Bank's policy on capital stock requirements.

Capital Resources

The following is Management's Discussion and Analysis of the Bank's capital resources as of June 30, 2009, which should be read in conjunction with the unaudited interim financial conditions and notes included in this report filed on Form 10-Q and the audited financial statements in the Bank's 2008 Annual Report filed on Form 10-K.

Risk-Based Capital (RBC)

The Bank became subject to the Finance Agency's Risk-Based Capital (RBC) regulations upon implementation of its capital plan on December 16, 2002. This regulatory framework requires the Bank to maintain sufficient permanent capital, defined as retained earnings plus capital stock, to meet its combined credit risk, market risk and operational risk. Each of these components is computed as specified in regulations and directives issued by the Finance Agency.

(in millions)	June 30, 2009	March 31, 2009	December 31, 2008
Permanent capital:			
Capital stock ⁽¹⁾	\$ 4,015.3	\$ 4,007.2	\$ 3,986.4
Retained earnings	434.9	402.8	170.5
Total permanent capital	\$ 4,450.2	\$ 4,410.0	\$ 4,156.9
Risk-based capital requirement:			
Credit risk capital	\$ 530.6	\$ 432.8	\$ 278.7
Market risk capital	2,218.7	2,685.7	2,739.1
Operations risk capital	824.8	935.5	905.3
Total risk-based capital requirement	\$ 3,574.1	\$ 4,054.0	\$ 3,923.1

Note:

(1) Capital stock includes mandatorily redeemable capital stock

The Bank held excess permanent capital over RBC requirements of \$876.1 million, \$356.0 million and \$233.8 million at June 30, 2009, March 31, 2009 and December 31, 2008, respectively.

On August 3, 2009, the Bank received final notification that it was considered adequately capitalized for the quarter ended March 31, 2009; however, the Finance Agency has raised concerns regarding the ratio of the Bank's level of accumulated other comprehensive loss to retained earnings and the ratio of the Bank's market value of equity to the par value of capital stock. As of the date of this filing, the Bank has not received a notice from the Finance Agency regarding its capital classification for the quarter ended June 30, 2009. On August 4, 2009, the Finance Agency issued its final Prompt Corrective Action Regulation (PCA Regulation) incorporating the terms of the Interim Final Regulation issued on January 30, 2009. See the "Legislative and Regulatory Developments" discussion in Item 2. Management's Discussion and Analysis in this report filed on Form 10-Q for additional Information.

Capital and Leverage Ratios

In addition to the requirements for RBC, the Finance Agency has mandated maintenance of certain capital and leverage ratios. The Bank must maintain total regulatory capital and leverage ratios of at least 4.0% and 5.0% of total assets, respectively. Management has an ongoing program to measure and monitor compliance with the ratio requirements. As a matter of policy, the Board has established an operating range for capitalization that calls for the capital ratio to be maintained between 4.08% and 5.0%. To enhance overall returns, it has been the Bank's practice to utilize leverage within this operating range when market conditions permit, while maintaining compliance with statutory, regulatory and Bank policy limits.

(dollars in millions)	June 30, 2009	December 31, 2008
Capital Ratio		
Minimum capital (4.0% of total assets)	\$ 3,056.1	\$ 3,632.2
Actual capital (permanent capital plus reserves for off-balance sheet credit risk)	4,450.9	4,170.9
Total assets	76,401.6	90,805.9
Capital ratio (actual capital as a percent of total assets)	5.8%	4.6%
Leverage Ratio		
Minimum leverage capital (5.0% of total assets)	\$ 3,820.1	\$ 4,540.3
Leverage capital (permanent capital multiplied by a 1.5 weighting factor plus reserves for off-balance sheet credit risk)	6,676.0	6,249.3
Leverage ratio (leverage capital as a percent of total assets)	8.7%	6.9%

Management reviews, on a routine basis, projections of capital leverage that incorporate anticipated changes in assets, liabilities, and capital stock levels as a tool to manage overall balance sheet leverage within the Board's operating ranges. In connection with this review, when management believes that adjustments to the current member stock purchase requirements within the ranges established in the capital plan are warranted, a recommendation is presented for Board consideration. The member stock purchase requirements have been adjusted several times since the implementation of the capital plan in December 2002. Members are currently required to purchase Bank stock with a value of 4.75% of member loans outstanding and 0.75% of unused borrowing capacity. Effective May 1, 2009, there was an increase in the stock purchase requirement percentage for AMA activity from 0.0% to 4.0% on a prospective basis only.

On November 10, 2008, the Bank first changed its excess capital stock repurchase practice, stating that the Bank would no longer make excess capital stock repurchases at a member's request and noting that the previous practice of repurchasing excess capital stock from all members on a periodic basis was revised. Subsequently, as announced on December 23, 2008, the Bank suspended excess capital stock repurchases until further notice. At June 30, 2009 and December 31, 2008, excess capital stock totaled \$1.4 billion and \$479.7 million, respectively. The Bank's prior practice was to promptly repurchase the excess capital stock of its members upon their request (except with respect to directors' institutions during standard blackout periods). As long as it is not repurchasing excess capital stock, the Bank's capital and leverage ratios may continue to increase outside of normal ranges as evidenced by the increases from December 31, 2008 to June 30, 2009. This may result in lower earnings.

Critical Accounting Policies

The Bank's financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Application of these principles requires management to make estimates, assumptions or judgments that affect the amounts reported in the financial statements and accompanying notes. The use of estimates, assumptions and judgments is necessary when financial assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. Assets and liabilities carried at fair value inherently result in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices when available. When quoted market prices are not available, fair

values may be obtained from third-party sources or are estimated in good faith by management, primarily through the use of internal cash flow and other financial modeling techniques.

The most significant accounting policies followed by the Bank are presented in Note 2 to the audited financial statements in the Bank's 2008 Annual Report filed on Form 10-K. These policies, along with the disclosures presented in the other notes to the financial statements and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those which are highly dependent on subjective or complex judgments, estimates or assumptions, and those for which changes in those estimates or assumptions could have a significant impact on the financial statements.

The following critical accounting policies are discussed in more detail under this same heading in the Bank's 2008 Annual Report filed on Form 10-K:

- Other-Than-Temporary Impairment for Investment Securities
- Fair Value Calculations and Methodologies
- Accounting for Derivatives
- Loans to Members and Related Allowance for Credit Losses
- Guarantees and Consolidated Obligations
- Accounting for Premiums and Discounts on Mortgage Loans and Mortgage-Backed Securities
- Allowance for Credit Losses on Banking on Business Loans
- Allowance for Credit Losses on Mortgage Loans Held for Portfolio
- Future REFCORP Payments

Since January 1, 2009, the Bank has made two changes to its critical accounting policies as a result of adopting newly issued accounting standards. The impact of those accounting standards on the Bank's Critical Accounting Policies is discussed below.

Other-Than-Temporary Impairment Assessments for Investment Securities. Effective January 1, 2009, the Bank adopted FSP FAS 115-2 and FAS 124-2, "*Recognition and Presentation of Other-Than-Temporary Impairments*" (FSP 115-2). Among other things, FSP 115-2 revises the recognition and reporting requirements for OTTI of debt securities classified as available-for-sale and held-to-maturity.

For debt securities, the "ability and intent to hold" provision was eliminated in FSP 115-2, and impairment is now considered to be other than temporary if an entity (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its amortized cost basis, or (3) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell the security). In addition, the probability standard relating to the collectibility of cash flows was eliminated in FSP 115-2, and impairment is now considered to be other than temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to in FSP 115-2 as a credit loss).

The Bank evaluates outstanding available-for-sale and held-to-maturity securities in an unrealized loss position (i.e., impaired securities) for OTTI on at least a quarterly basis. In doing so, the Bank considers many factors including, but not limited to: the credit ratings assigned to the securities by the NRSROs; other indicators of the credit quality of the issuer; the strength of the provider of any guarantees; the length of time and extent that fair value has been less than amortized cost; and whether the Bank has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. In the case of its private label residential MBS, the Bank also considers prepayment speeds, the historical and projected performance of the underlying loans and the credit support provided by the subordinate securities. These evaluations are inherently subjective and consider a number of quantitative and qualitative factors.

In the case of its private label residential MBS that exhibit adverse risk characteristics, the Bank employs models to determine the cash flows that it is likely to collect from the securities. These models consider borrower characteristics and the particular attributes of the loans underlying the securities, in conjunction with assumptions about future changes in home prices and interest rates, to predict the likelihood a loan will default and the impact on default frequency, loss severity and remaining credit enhancement. A significant input to these models is the forecast of future housing price changes for the relevant states and metropolitan statistical areas, which are based

upon an assessment of the various housing markets. In general, since the ultimate receipt of contractual payments on these securities will depend upon the credit and prepayment performance of the underlying loans and, if needed, the credit enhancements for the senior securities owned by the Bank, the Bank uses these models to assess whether the credit enhancement associated with each security is sufficient to protect against likely losses of principal and interest on the underlying mortgage loans. The development of the modeling assumptions requires significant judgment. During the first quarter of 2009, the Finance Agency required the FHLBanks to develop and utilize FHLBank System-wide modeling assumptions for purposes of producing cash flow analyses used in the OTTI assessment for private label residential MBS. During the second quarter of 2009, the FHLBanks, enhanced the overall OTTI process by creating an OTTI Governance Committee. The OTTI Governance Committee charter was approved June 11, 2009 and provides a formal process by which the FHLBanks can provide input on and approve assumptions. The OTTI Governance Committee is responsible for reviewing and approving the key assumptions including interest rate and housing prices along with related modeling inputs and methodologies to be used to generate cash flow projections. The Finance Agency has also required the FHLBanks to run the OTTI analysis on a common platform. The Bank utilized the FHLBank of Indianapolis to run its OTTI analysis of its private label residential MBS classified as prime and Alt-A and the FHLBank of Chicago to run its private label residential MBS classified as subprime. The FHLBank of San Francisco also ran the cash flow analysis on common securities (i.e., those held by two or more FHLBanks). The Bank performed its OTTI analysis on monoline insured and all other private label residential MBS in a manner consistent with other FHLBanks with similar instruments. The OTTI Governance Committee requires that FHLBanks which run the cash flows run sample securities to ensure that the OTTI results are consistent across the FHLBank System.

The Bank reviewed the FHLBank System-wide assumptions used in the 2009 OTTI process. Based on the results of this review, the Bank deemed the FHLBank System-wide assumptions to be reasonable and adopted them. However, different assumptions could produce materially different results, which could impact the Bank's conclusions as to whether an impairment is considered other-than-temporary and the magnitude of the credit loss.

If the Bank intends to sell an impaired debt security, or more likely than not will be required to sell the security before recovery of its amortized cost basis, the impairment is other-than-temporary and is recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost.

In instances in which the Bank determines that a credit loss exists but the Bank does not intend to sell the security and it is not more likely than not that the Bank will be required to sell the security before the anticipated recovery of its remaining amortized cost basis, the OTTI is separated into (1) the amount of the total impairment related to the credit loss and (2) the amount of the total impairment related to all other factors (i.e., the noncredit portion). The amount of the total OTTI related to the credit loss is recognized in earnings and the amount of the total OTTI related to all other factors is recognized in accumulated other comprehensive loss. The total OTTI is presented in the Statement of Operations with an offset for the amount of the total OTTI that is recognized in accumulated other comprehensive loss. Absent the intent or requirement to sell a security, if a credit loss does not exist, any impairment is considered to be temporary. If the Bank determines that a common security is other-than-temporarily impaired, the FHLBanks that jointly own the common security are required to consult with each other to arrive at the same financial results.

Regardless of whether an OTTI is recognized in its entirety in earnings or if the credit portion is recognized in earnings and the noncredit portion is recognized in other comprehensive income (loss), the estimation of fair values has a significant impact on the amount(s) of any impairment that is recorded.

The noncredit portion of any OTTI losses recognized in accumulated other comprehensive loss for debt securities classified as held-to-maturity is accreted over the remaining life of the debt security (in a pro rata manner based on the amount of actual cash flows received as a percentage of total estimated cash flows) as an increase in the carrying value of the security until the security is sold, the security matures, or there is an additional OTTI that is recognized in earnings. The noncredit portion of any OTTI losses on securities classified as available-for-sale is adjusted to fair value with an offsetting adjustment to the carrying value of the security. The fair value adjustment could increase or decrease the carrying value of the security.

In periods subsequent to the recognition of an OTTI loss, the other-than-temporarily impaired debt security is accounted for as if it had been purchased on the measurement date of the OTTI at an amount equal to the previous amortized cost basis less the credit-related OTTI recognized in earnings. For debt securities for which credit-related OTTI is recognized in earnings, the difference between the new cost basis and the cash flows expected to be collected is accreted into interest income over the remaining life of the security in a prospective manner based on the amount and timing of future estimated cash flows.

The adoption of FSP 115-2 required a cumulative effect adjustment as of January 1, 2009, which increased the Bank's retained earnings by \$255.9 million with an offsetting decrease to accumulated other comprehensive loss. The Bank's adoption of FSP 115-2 had a material impact on the Bank's Statement of Condition, Statement of Operations and Statement of Changes in Capital. The adoption of FSP 115-2 had no material impact on the Bank's Statement of Cash Flows.

Fair Value Calculations and Methodologies. The Bank adopted FASB Staff Position No. FAS 157-4, *Determining Fair Value when the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4) on January 1, 2009. FSP 157-4 affirms the objective that fair value is the price that would be received to sell an asset in an orderly transaction (that is not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions (that is, in the inactive market). FSP 157-4 also provides additional guidance to determine whether a market for a financial asset is inactive and determine if a transaction is distressed. The Bank's adoption of FSP 157-4 did not have a material impact on the Bank's financial statements, nor did it change the Bank's fair value methodologies from those disclosed in the Bank's 2008 Annual Report filed on Form 10-K.

The Bank did not implement any other material changes to its accounting policies or estimates during the six months ended June 30, 2009.

Recently Issued Accounting Standards and Interpretations. See Note 2 to the unaudited interim financial statements included in this report filed on Form 10-Q for a discussion of recent accounting pronouncements that are relevant to the Bank's businesses.

Legislative and Regulatory Developments

Finance Agency Final Regulation on Capital Classifications and Critical Capital Levels for the FHLBanks. On August 4, 2009, the Finance Agency issued its final Prompt Corrective Action Regulation (PCA Regulation) incorporating the terms of the interim Final Regulation issued on January 30, 2009. The final PCA Regulation (like the Interim Final Regulation): (1) provides for the Finance Agency to classify an FHLBank's capital status at least once per quarter; (2) provides the Finance Agency with discretionary authority (under certain conditions) to reclassify an FHLBank down one lower capital classification level, including reclassifying an FHLBank as "undercapitalized" that otherwise meets its regulatory capital compliance measures; and (3) establishes the mandatory and discretionary actions and limitations that apply to an FHLBank that is classified as less than adequately capitalized. These actions and limitations include without limitation: (1) the requirement to submit a capital restoration plan; (2) restrictions on dividend payments, capital stock repurchases and redemptions; and (3) restrictions on the growth of average assets, which cannot exceed the previous quarter's level of average assets without approval of the Finance Agency Director. See additional discussion regarding the mandatory and discretionary actions and limitations in the discussion of the Finance Agency Interim Final Regulation Regarding Minimum Capital Levels in the "Legislative and Regulatory Developments" section in Item 7. Management's Discussion and Analysis in the Bank's 2008 Annual Report filed on Form 10-K.

Proposed Regulation on Restructuring the FHLBanks Office of Finance. On July 30, 2009 the Finance Agency announced that a proposed regulation regarding restructuring the board of directors of the Office of Finance (OF) would be issued for a 60-day comment period. The OF is governed by a board of directors, the composition and functions of which are determined by FHFA's regulations. In its announcement, the Finance Agency stated that its experience with the FHLBank System and with the combined financial reports prepared for the System by the OF during the recent period of market stress suggests that the OF and the FHLBank System could benefit from a reconstituted and strengthened board. The proposed regulation is intended to achieve that by the following:

(1) increasing the size of the board and having it comprised of the twelve FHLBank presidents and three to five independent directors; (2) creating an audit committee; (3) providing for the creation of other committees; and (4) setting a method for electing independent directors along with setting qualification for these directors. Under the proposed rule, the audit committee would be charged with oversight of greater consistency in accounting policies and procedures by the FHLBanks which the Finance Agency has stated is intended to enhance the value of the combined financial reports of the OF.

Finance Agency Guidance for Determining Other-Than-Temporary Impairment. On April 28, 2009 and May 7, 2009, the Finance Agency provided the Bank with guidance related to the process for determining OTTI and the adoption of FSP 115-2 with respect to the Bank's holdings of private label MBS. In addition, during second quarter 2009, the FHLBanks formed an OTTI Governance Committee responsible for running key modeling assumptions, inputs and methodologies used in the OTTI process. See "Critical Accounting Policies" in this Item 2. Management's Discussion and Analysis and Note 2 to the unaudited financial statements in this report filed on Form 10-Q for a description of this guidance and related actions.

U.S. Treasury Department's Financial Stability Plan. On March 23, 2009, in accordance with the U.S. Treasury Department's announced Financial Stability Plan's initiative to purchase illiquid assets, the U.S. Treasury announced the Public-Private Investment Program (PPIP), which is a program designed to attract private investors to purchase certain real estate loans and illiquid MBS (originally AAA-rated) owned by financial institutions using up to \$100 billion in TARP capital funds. These funds could be levered with debt funding also provided by the U.S. Treasury to expand the capacity of the program. On July 8, 2009 the U.S. Treasury announced that it had selected the initial nine PPIP fund managers to purchase legacy securities including commercial and residential MBS originally issued prior to 2009 that were originally rated AAA by two or more NRSROs. The PPIP's activities in purchasing such residential MBS could affect the values of residential MBS generally and could affect the fair value of the Bank's private label residential MBS.

Helping Families Save Their Homes Act of 2009 and Other Mortgage Modification Legislation. On May 20, 2009, the Helping Families Save Their Home Act of 2009 was enacted to encourage loan modifications in order to prevent mortgage foreclosures and to buttress the federal deposit insurance system. One provision in the act provides a safe harbor from liability for mortgage servicers who modify the terms of a mortgage consistent with certain qualified loan modification plans. At this time it is uncertain what effect the provisions regarding loan modifications will have on the value of the Bank's mortgage asset portfolio, the mortgage loan collateral pledged by members to secure their loans to members from the Bank or the value of the Bank's MBS. As mortgage servicers modify mortgages under the various government incentive programs and otherwise, the value of the Bank's MBS and mortgage loans held for investment and mortgage assets pledged as collateral for member advances may be reduced. At this point, legislation to allow bankruptcy cramdowns on mortgages secured by owner-occupied homes has been defeated in the U.S. Senate; however, similar legislation could be re-introduced. With this potential change in the law, the risk of losses on mortgages due to borrower bankruptcy filings could become material. The previously proposed legislation permitted a bankruptcy judge, in specified circumstances, to reduce the mortgage amount to today's market value of the property, reduce the interest rate paid by the debtor, and/or extend the repayment period. In the event that this legislation would again be proposed, passed and applied to existing mortgage debt (including residential MBS), the Bank could face increased risk of credit losses on its private label MBS that include bankruptcy carve-out provisions and allocate bankruptcy losses over a specified dollar amount on a pro-rata basis across all classes of a security. As of June 30, 2009, the Bank has 73 private label MBS with a par value of \$4.2 billion that include bankruptcy carve-out language that could be affected by cramdown legislation. The effect on the Bank will depend on the actual version of the legislation that would be passed and whether mortgages held by the Bank, either within the MPF Program or as collateral for MBS held by the Bank, would be subject to bankruptcy proceedings under the new legislation. Other Bankruptcy Reform Act Amendments also continue to be discussed.

Federal Reserve Board GSE Debt and MBS Purchases Initiative. On November 25, 2008, the Federal Reserve Board (FRB) announced an initiative for the Federal Reserve Bank of New York (FRBNY) to purchase up to \$100 billion of the debt of Freddie Mac, Fannie Mae, and the FHLBanks. On March 18, 2009, the FRB committed to purchase up to an additional \$100 billion of such debt. Through June 30, 2009, the FRBNY has purchased approximately \$97 billion in such term debt, of which approximately \$22 billion was FHLBank term debt. On

November 25, 2008, the FRB also announced a program to purchase up to \$500 billion in MBS backed by Fannie Mae, Freddie Mac, and the Government National Mortgage Association (Ginnie Mae) to reduce the cost and increase the availability of credit for the purchase of houses. On March 18, 2009, the FRB committed to purchase up to an additional \$750 billion of such MBS increasing the total purchase authority to \$1.25 trillion since inception of the program. Through June 30, 2009, the FRBNY has purchased approximately \$964 billion in GSE MBS, including approximately \$342 billion in purchases related to dollar rolls which provide holders of MBS with a form of short-term financing, similar to repurchase agreements. This program, initiated to drive mortgage rates lower, make housing more affordable, and help stabilize home prices, may lead to continued artificially low agency-mortgage pricing. Comparative MPF Program price execution, which is a function of the FHLBank debt issuance costs, may not be competitive as a result. This trend could continue and member demand for MPF Program products could diminish.

Additional Federal Reserve Bank Actions. On November 25, 2008, the FRB announced the creation of the Term Asset-Backed Securities Loan Facility (TALF). The TALF is a funding facility that will issue loans with a term of up to three years to U.S. persons that own eligible asset-backed security (ABS) collateral. The TALF is intended to (1) assist the financial markets in accommodating the credit needs of consumers and small businesses by facilitating the issuance of ABS collateralized by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration (SBA) and (2) improve the market conditions for ABS more generally. TALF loans are non-recourse loans, meaning that the borrower's obligation to repay the loan can be fulfilled by surrendering the collateral. The U.S. Treasury is providing credit protection to the FRBNY using funds authorized under the TARP. The loan from the FRBNY is senior to the TARP funds. On February 10, 2009, the FRB announced that it is prepared to expand the size of the TALF to as much as \$1.0 trillion and potentially to broaden the eligible collateral to encompass other types of newly issued AAA-rated asset-backed securities, such as ABS backed by commercial mortgages or private label MBS backed by residential mortgages. Any expansion of the TALF would be supported by the Treasury providing additional funds from the TARP. In May 2009, the FRB announced the expansion of the TALF to include commercial mortgage-backed securities, including legacy assets.

FDIC Temporary Liquidity Guarantee Program and Other FDIC Actions. On February 10, 2009, the FDIC announced an extension to the guarantee of eligible debt under its Temporary Liquidity Guarantee Program (TLGP) from June 30, 2009, to October 31, 2009, in exchange for an additional premium for the guarantee. On May 19, 2009 Congress passed legislation continuing the FDIC-insured deposit limit of \$250 thousand through 2013.

Proposed Financial Regulatory System Reorganization. On June 17, 2009, President Obama issued a proposal to improve the effectiveness of the federal regulatory structure that would, among other things, cause a restructuring of the current bank regulatory system. One provision of the plan would require the Treasury Department and the Department of Housing and Urban Development to analyze the future of the FHLBanks, along with Fannie Mae and Freddie Mac with a goal of developing such recommendations in time for the 2011 U.S. fiscal budget. The Bank is unable to predict what such recommendation may be and therefore is unable to predict an impact of President Obama's proposal on the Bank.

Proposed Regulation on the Reporting of Fraudulent Financial Instruments and Loans. On June 17, 2009, the Finance Agency issued a proposed regulation with a comment deadline of August 17, 2009 requiring Fannie Mae, Freddie Mac and the FHLBanks to report to the Finance Agency any such entity's sale or purchase of fraudulent financial assets and loans. As proposed, the regulation would impose requirements on the timeframe, format, document retention, and nondisclosure obligations for reporting fraud or possible fraud to the Finance Agency. Under the proposed regulation, fraud and potential fraud are defined broadly, creating potentially significant reporting obligations.

Proposed Regulation for FHLBank Membership of Community Development Financial Institutions (CDFIs). On May 15, 2009, the Finance Agency issued a proposed regulation with a comment deadline of July 14, 2009 for CDFI membership setting forth proposed CDFI membership requirements. The newly eligible CDFIs would include community development loan funds, venture capital funds, and state chartered credit unions without federal deposit insurance.

Proposed Regulation on Executive Compensation. On June 5, 2009, the Finance Agency issued a proposed regulation with a comment deadline of August 4, 2009 regarding executive compensation for Fannie Mae, Freddie Mac and the FHLBanks. If implemented as proposed, each FHLBank will be required to submit proposed compensation actions to the Finance Agency for prior review for certain executive positions. The Director of the Finance Agency will be required to prohibit FHLBanks from providing compensation that is not reasonable and comparable for the position based upon a review of relevant factors. Further, the proposed regulation has temporarily authorized the Director of the Finance Agency to approve, disapprove, or modify the executive compensation of Fannie Mae, Freddie Mac and the FHLBanks from July 30, 2008 to December 31, 2009.

Proposed Regulation Regarding Golden Parachute and Indemnification Payments. On June 29, 2009, the Finance Agency issued a proposed regulation with comment deadline of July 29, 2009, setting forth the standards which the Finance Agency shall take into consideration when limiting or prohibiting golden parachute and indemnification payments if adopted as proposed. The primary effects of this proposed regulation are to better conform existing Finance Agency regulations on golden parachute payments with FDIC rules and to further limit golden parachute payments made by Fannie Mae, Freddie Mac or an FHLBank that are assigned certain less-than-satisfactory composite Finance Agency examination ratings. The proposed regulation includes provisions regarding certain limitations on indemnification payments by the FHLBanks, Fannie Mae, Freddie Mac and the OF with respect to actions or proceedings brought by the Finance Agency.

Risk Management

Economic conditions continued to deteriorate in the second quarter of 2009, albeit at a slower pace than previous quarters. Housing and financial markets have been in tremendous turmoil since the middle of 2007, with repercussions throughout the U.S. and global economies, and the U.S. economy is in a recession. Limited liquidity in the credit markets, increasing mortgage delinquencies and foreclosures, falling real estate values, the collapse of the secondary market for MBS, loss of investor confidence, a highly volatile stock market, interest rate fluctuations, and the failure of a number of large and small financial institutions are all indicators of the severe economic crisis facing the U.S. and the rest of the world. These economic conditions, particularly in the housing and financial markets, combined with ongoing uncertainty about the depth and duration of the financial crisis and the recession, continued to affect the Bank's business and results of operations, as well as its members, during the first six months of 2009 and may continue to have adverse effects for the near future. In response to those events, the U.S. and other governments and their central banks have continued to develop and implement an increasingly aggressive set of initiatives in an ongoing effort to provide support for and to restore the functioning of the global credit markets.

The Bank is heavily dependent on the residential mortgage market through the collateral securing member loans and holdings of mortgage-related assets. The Bank's member collateral policies, practices and secured status are discussed in more detail below as well as in Item 1. Business in the Bank's 2008 Annual Report filed on Form 10-K. Additionally, the Bank has outstanding credit exposures related to the MPF Program and investments in private label MBS, which are affected by the mortgage market deterioration. All of these risk exposures are continually monitored and are discussed in more detail in the following sections.

For further information regarding the financial and residential markets in the second quarter and first six months of 2009, see the "Current Financial and Mortgage Markets and Trends" discussion in this Item 2. Management's Discussion and Analysis in this report filed on Form 10-Q.

Risk Governance

The Bank's lending, investment and funding activities and use of derivative hedging instruments expose the Bank to a number of risks that include market and interest rate risk, credit and counterparty risk, liquidity and funding risk, and operating and business risk, among others, including those described in Item 1A. Risk Factors in the Bank's 2008 Annual Report filed on Form 10-K.

Capital Adequacy and the Alternative Risk Profile. As discussed in the Bank's 2008 Annual Report filed on Form 10-K, the Bank's overarching capital adequacy metric is the Projected Capital Stock Price (PCSP). The PCSP

is calculated using risk components for interest rates, spread, credit, operating and accounting risk. The sum of these components represents an estimate of projected capital stock variability and is used in evaluating the adequacy of retained earnings and developing dividend payout recommendations to the Board. The Board has established a PCSP floor of 85% and a target of 95%. Management strives to manage the overall risk profile of the Bank in a manner that attempts to preserve the PCSP at or near the target ratio of 95%. The difference between the actual PCSP and the floor or target, if any, represents a range of additional retained earnings that, in the absence of a reduction in the aforementioned risk components, would need to be accumulated over time to restore the PCSP and retained earnings to an adequate level. At June 30, 2009, the Bank was out of compliance with the capital adequacy policy metric. Management is addressing this through the long-term implementation approach for reaching an adequate level of capital established in September 2008. For second quarter 2009, the Bank continued to suspend dividend payments as a step in an overall effort to reach the required retained earnings level.

Mortgage spreads, particularly spreads on private label MBS, expanded to historically wide levels over the last two years, reflecting increased credit risk and an illiquid market environment. Due to these unprecedented market developments, the Bank's market risk metrics began to deteriorate in early 2008, including a decline in the Bank's market value of equity and an increase in the duration of equity. At that time, management developed an Alternative Risk Profile to exclude the effects of further increases in certain mortgage-related asset credit spreads to better reflect the underlying interest rate risk and accommodate prudent management of the Bank's balance sheet. See the "Risk Management" section in Item 7. Management's Discussion and Analysis in the Bank's 2008 Annual Report filed on Form 10-K for additional information on the Alternative Risk Profile.

The following table presents the Bank's PCSP calculation under the provisions of the revised Risk Governance Policy. Under both the actual and Alternative Risk Profile calculations, the Bank was out of compliance with the PCSP limits for all periods presented.

	Projected Capital Stock Price (PCSP)			
	Actual	Alternative Risk Profile	Floor	Target
June 30, 2009	21.2%	71.6%	85%	95%
March 31, 2009	11.6%	73.2%	85%	95%
December 31, 2008	9.9%	74.2%	85%	95%
September 30, 2008	57.1%	83.7%	85%	95%

Declines in the market value of equity due to further private label MBS credit spread widening in the fourth quarter of 2008 reduced the current capital stock price from which the PCSP is projected and significantly increased the differential between the actual and Alternative Risk Profile calculations.

During the first quarter of 2009, the PCSP stabilized at a level just above the low price established in December 2008 for the actual PCSP. As components of the PCSP, both interest rate and spread risk were relatively stable at low levels during the first quarter of 2009. The credit risk component, however, increased and was a primary driver of keeping the PCSP at low levels during the first quarter 2009 for both the actual and alternate PCSP, despite an improved current capital stock price from which the PCSP is projected. The increase in the credit risk component was driven primarily by credit ratings downgrades on private label MBS.

During the second quarter of 2009, the credit risk and interest rate risk components of the PCSP increased primarily as a result of additional credit rating downgrades on private label MBS and lower than expected mortgage prepayments. These increases were more than offset by an improved current capital stock price as of June 30, 2009, resulting in a higher Actual PCSP for the second quarter. The risk component increases were only partially offset in the Alternative Risk Profile PCSP, which excludes the effects of changes in certain mortgage-related asset credit spreads.

Qualitative Disclosures Regarding Market Risk

Managing Market and Interest Rate Risk. The Bank's market and interest rate risk management objective is to protect member/shareholder and bondholder value consistent with the Bank's housing mission and safe and sound

operations in all interest-rate environments. Management believes that a disciplined approach to market and interest rate risk management is essential to maintaining a strong and durable capital base and uninterrupted access to the capital markets.

Market risk is defined as the risk of loss arising from adverse changes in market rates and prices and other relevant market rate or price changes, such as basis changes. Generally, the Bank manages this risk through asset selection and pricing. However, the unprecedented private label mortgage credit spreads have significantly reduced the Bank's net market value and actual PCSP.

Interest rate risk is the risk that relative and absolute changes in prevailing market interest rates may adversely affect an institution's financial performance or condition. Interest rate risk arises from a variety of sources, including repricing risk, yield curve risk and options risk. The Bank invests in mortgage assets, such as MPF Program mortgage loans and MBS, which together represent the primary source of option risk. As of June 30, 2009, mortgage assets totaled 19.1% of the Bank's balance sheet. Management reviews the estimated market risk of the entire portfolio of mortgage assets and related funding and hedges on a monthly basis to assess the need for rebalancing strategies. These rebalancing strategies may include entering into new funding and hedging transactions, forgoing or modifying certain funding or hedging transactions normally executed with new mortgage purchases, or terminating certain funding and hedging transactions for the mortgage asset portfolio.

Earnings-at-Risk. On March 27, 2009, the Board approved an earnings-at-risk framework for certain mark-to-market positions, including economic hedges. This framework established a forward-looking, scenario-based exposure limit based on parallel rate shocks that would apply to any existing or proposed transaction that is marked to market through the income statement without an offsetting mark arising from a qualifying SFAS 133 hedge relationship. An earnings-at-risk policy based on the approved framework was implemented effective April 1, 2009.

The Asset/Liability Committee (ALCO) established an initial daily exposure limit of \$2.5 million and has since implemented a more restrictive daily exposure operating guideline of \$1.5 million. Throughout the second quarter of 2009, the daily exposure was below the operating guidelines of \$1.5 million and, at June 30, 2009, measured \$208 thousand. ALCO also monitors actual profit/loss change on a daily, monthly cumulative, and quarterly cumulative basis.

Quantitative Disclosures Regarding Market Risk

The Bank's Market Risk Model. Significant resources, both in analytical computer models and staff, are devoted to assuring that the level of interest rate risk in the balance sheet is accurately measured, thus allowing management to monitor the risk against policy and regulatory limits. The Bank uses an externally developed market risk model to evaluate its financial position. Management regularly reviews the major assumptions and methodologies used in the model, as well as available upgrades to the model. During second quarter 2009, the Bank upgraded the mortgage prepayment models used within the market risk model to more accurately reflect expected prepayment behavior. See the "Risk Management" discussion in Item 7. Management's Discussion and Analysis in the Bank's 2008 Annual Report filed on Form 10-K for additional information regarding the Bank's market risk profile.

The duration of equity and return volatility metrics, as well as the PCSP discussed above, are the direct primary metrics used by the Bank to manage its interest rate risk exposure. The Bank's asset/liability management policies specify acceptable ranges for duration of equity, return volatility and the PCSP metrics, and the Bank's exposures are measured and managed against these limits. The duration of equity and return volatility metrics are described in more detail below.

Duration of Equity. One key risk metric used by the Bank, and which is commonly used throughout the financial services industry, is duration. Duration is a measure of the sensitivity of a financial instrument's value, or the value of a portfolio of instruments, to a parallel shift in interest rates. Duration (typically measured in months or years) is commonly used by investors throughout the fixed income securities market as a measure of financial instrument price sensitivity. Longer duration instruments generally exhibit greater price sensitivity to changes in market interest rates than shorter duration instruments. For example, the value of an instrument with a duration of

five years is expected to change by approximately 5% in response to a one percentage point change in interest rates. Duration of equity, an extension of this conceptual framework, is a measure designed to capture the potential for the market value of the Bank's equity base to change with movements in market interest rates. Higher duration numbers, whether positive or negative, indicate a greater potential exposure of market value of equity in response to changing interest rates.

The Bank's asset/liability management policy approved by the Board calls for duration of equity to be maintained within a ± 4.5 year range in the base case. In addition, the duration of equity exposure limit in an instantaneous parallel interest rate shock of ± 200 basis points is ± 7 years. Management analyzes the duration of equity exposure against this policy limit on a daily basis. Management continually evaluated its market risk management strategies throughout 2008. In March 2008, it determined that strict compliance with the actual duration of equity limit under the current severe market conditions would not be prudent. In November 2008 and in connection with the Alternative Risk Profile discussed above, management requested and was approved to use the alternate calculation of duration of equity for the calculation and monitoring of duration of equity through December 31, 2009. The Board did not adjust the existing market risk limits; therefore, compliance with those limits is now measured using the alternative calculation.

The following table presents the Bank's duration of equity exposure in accordance with the actual and Alternative Risk Profile duration of equity calculation by quarter.

(in years)	Down 200 basis points	Down 100 basis points	Base Case	Up 100 basis points	Up 200 basis points
Alternative duration of equity					
June 30, 2009	(1)	(1)	2.3	3.2	3.3
March 31, 2009	(1)	(1)	(2.7)	0.2	1.1
December 31, 2008	(1)	(1)	(0.1)	1.5	1.7
Actual duration of equity					
June 30, 2009	(1)	(1)	22.1	11.7	6.2
March 31, 2009	(1)	(1)	13.9	2.2	(2.2)
December 31, 2008	(1)	(1)	26.8	10.9	0.6
September 30, 2008	(1)	4.1	3.2	1.8	0.8
June 30, 2008	(1)	2.4	3.9	3.9	3.7
March 31, 2008	(1)	3.2	5.0	5.0	3.4
December 31, 2007	(2.8)	(0.6)	4.2	4.7	4.0

Note:

- (1) Given the low level of interest rates, an instantaneous parallel interest rate shock of "down 200 basis points" and "down 100 basis points" cannot be meaningfully measured for these periods.

During 2008 the Bank periodically took various hedging actions, including the issuance of a limited amount of fixed-rate debt, and was in compliance with the actual policy metric for the quarters ended June 30, 2008, and September 30, 2008. However, the Bank's base case duration of equity exceeded the policy limit at times during the second, third and fourth quarters of 2008 until the Alternative Risk Profile was adopted in November 2008, as previously discussed. Subsequent to the adoption of the alternative duration of equity calculation, private label MBS spreads continued to widen significantly causing a substantial decline in the market value of equity and a substantial increase in the actual duration of equity levels as of December 31, 2008. The Bank's low market value of equity in the fourth quarter 2008 had the effect of amplifying the volatility of the actual reported duration of equity metric. Therefore, the Bank was substantially out of compliance with the actual reported duration of equity as of December 31, 2008 and March 31, 2009, and, as of June 30, 2009, has continued to be out of compliance with the actual reported duration of equity metric. However, under the Alternative Risk Profile, the Bank was in compliance with the duration of equity policy metric at December 31, 2008, March 31, 2009 and June 30, 2009.

During the first quarter of 2009, the decrease in the alternate base case duration of equity of 2.6 years from December 31, 2008 to March 31, 2009 was primarily due to narrower agency mortgage spreads and issuance of fixed-rate debt. Increases in the alternate duration of equity for the second quarter of 2009 were primarily a result of the prepayment model changes made during the quarter, which more accurately reflect actual prepayment activity, as well as higher longer term rates. These model changes are made periodically to maintain adequate model performance.

The Bank continues to monitor the mortgage and related fixed income markets and the impact that changes in the market may have on duration of equity and other market risk measures and may take actions to reduce market risk exposures as needed. Management believes that the Bank's current market risk profile is reasonable given these market conditions.

Return Volatility. The Bank's asset/liability management policy specifies a return volatility metric to manage the impact of market risk on the Bank's average return on average capital stock compared to a dividend benchmark interest rate over multiple interest rate shock scenarios over a rolling forward one to 12 month time period. Effective September 2008, the Board approved an expansion of this metric to include a similar metric over the 13 to 24 month time period. The Board selected the dividend benchmark of three-month LIBOR and approved related spread limits for both time periods. This risk metric is calculated and reported to the Board on a monthly basis.

The following table presents the Bank's return volatility metric for 2008 and first quarter 2009 for the periods in which the policy was applicable. The metric is presented as spreads over 3-month LIBOR. The steeper and flatter yield curve shift scenarios shown below are represented by appropriate increases and decreases in short-term and long-term interest rates using the three-year point on the yield curve as the pivot point. The Bank was in compliance with these return volatility metrics across all selected interest rate shock scenarios as of June 30, 2009.

	Yield Curve Shifts ⁽¹⁾				
	Down 200 bps Parallel Shock	100 bps Steeper	Forward Rates	100 bps Flatter	Up 200 bps Parallel Shock
Year 1 Return Volatility					
June 30, 2009	(2)	2.84%	2.03%	1.28%	0.87%
March 31, 2009	(2)	2.35%	1.48%	0.63%	0.79%
December 31, 2008	(2)	2.81%	2.21%	0.80%	0.80%
September 30, 2008	1.20%	1.96%	1.39%	1.10%	0.94%
June 30, 2008	1.84%	2.01%	1.93%	1.55%	1.44%
March 31, 2008	3.20%	2.76%	2.46%	1.89%	2.18%
Year 2 Return Volatility					
June 30, 2009	(2)	2.16%	1.79%	1.21%	1.03%
March 31, 2009	(2)	2.35%	1.61%	1.04%	0.99%
December 31, 2008	(2)	2.77%	1.87%	0.73%	0.80%
September 30, 2008	1.52%	2.67%	1.94%	1.73%	1.66%

Note:

- (1) Excludes future potential OTTI charges which could be material so that earnings movement related to interest rate changes can be isolated.
- (2) Given the low level of interest rates, an instantaneous parallel interest rate shock of "down 200 basis points" cannot be meaningfully measured for these periods.

Credit and Counterparty Risk

Credit risk is the risk that the market value of an obligation will decline as a result of deterioration in the obligor's creditworthiness. Credit risk arises when Bank funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements. The Bank faces credit risk on the following: member and housing associate loans, letters of credit, and other credit product exposure; investments, including short-term cash investments; mortgage loans; Banking On Business loans; and derivatives. The financial condition of Bank members and all investment, mortgage loan and derivative counterparties is monitored to ensure that the Bank's